SPECIAL REPORT: WHY YOU CAN'T RATE REAL ESTATE AGENTS P. 70

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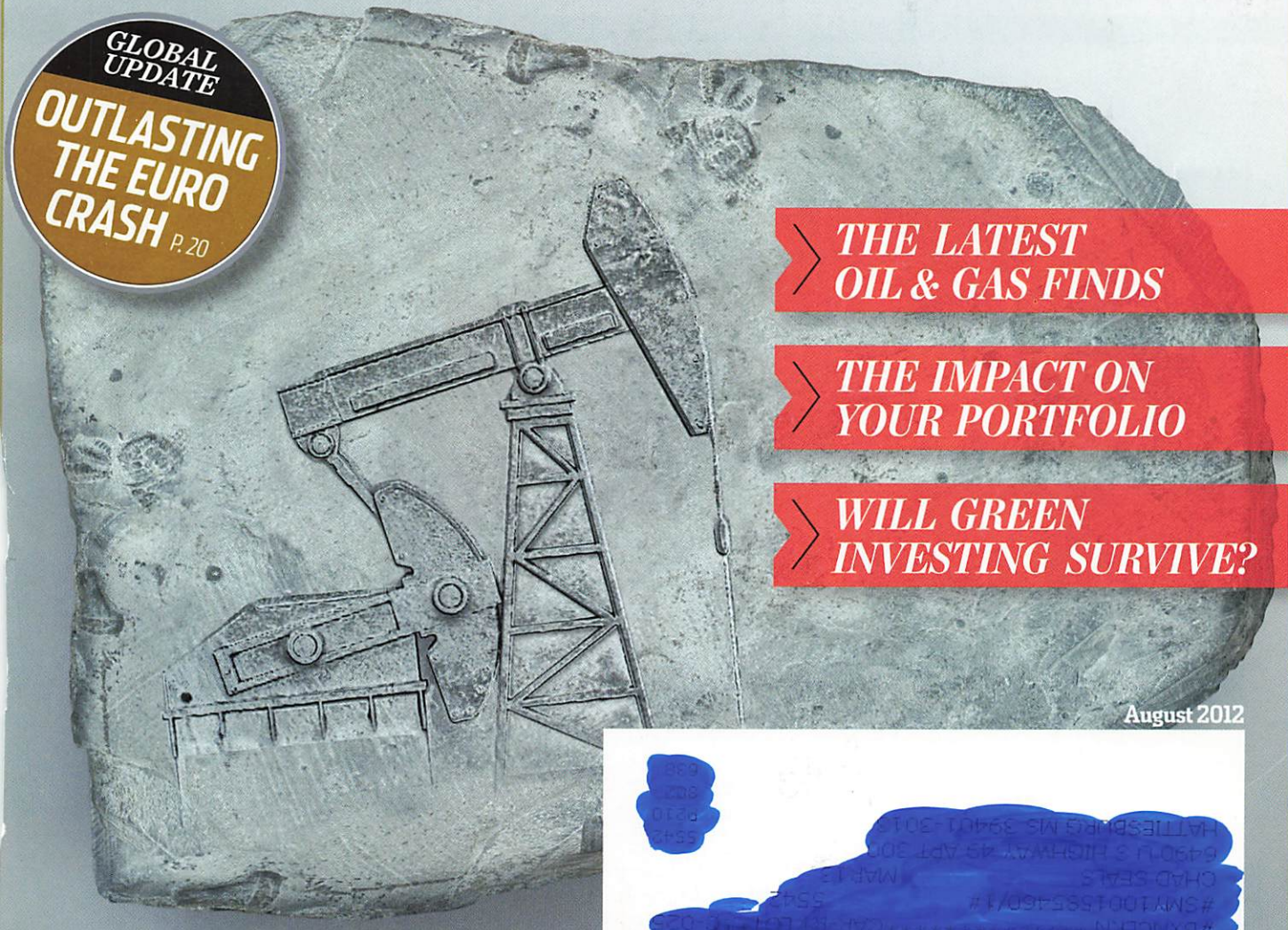
THE RETURN OF FOSSIL FUELS



GLOBAL UPDATE
OUTLASTING THE EURO CRASH P. 20

- THE LATEST OIL & GAS FINDS
- THE IMPACT ON YOUR PORTFOLIO
- WILL GREEN INVESTING SURVIVE?

August 2012

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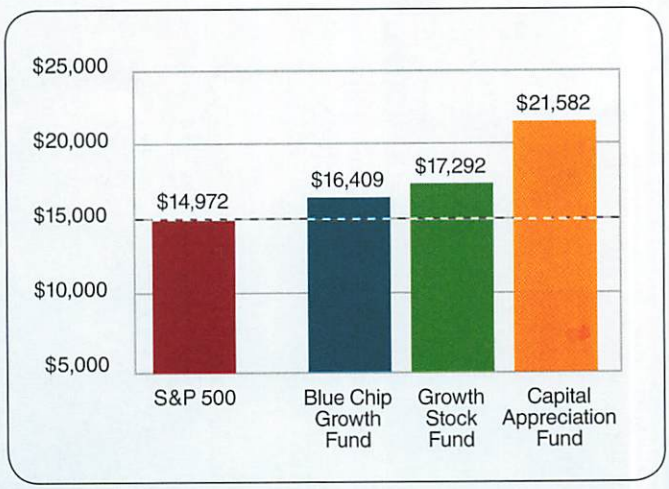

How much $10,000 invested would be worth. (based on the 10-year period ended 3/31/12)

*Based on average annual total returns for the 1-, 5-, and 10-year periods ended 3/31/12: S&P 500 1-year: **8.54%**, 5-year: **2.01%**, 10-year: **4.12%**; Blue Chip Growth Fund 1-year: **13.99%**, 5-year: **5.27%**, 10-year: **5.08%**; Capital Appreciation Fund 1-year: **8.05%**, 5-year: **5.17%**, 10-year: **8.00%**; and Growth Stock Fund 1-year: **12.15%**, 5-year: **4.57%**, 10-year: **5.63%**. As of 12/31/11, the funds' expense ratios were **0.77%** (Blue Chip Growth Fund), **0.73%** (Capital Appreciation Fund), and **0.70%** (Growth Stock Fund).

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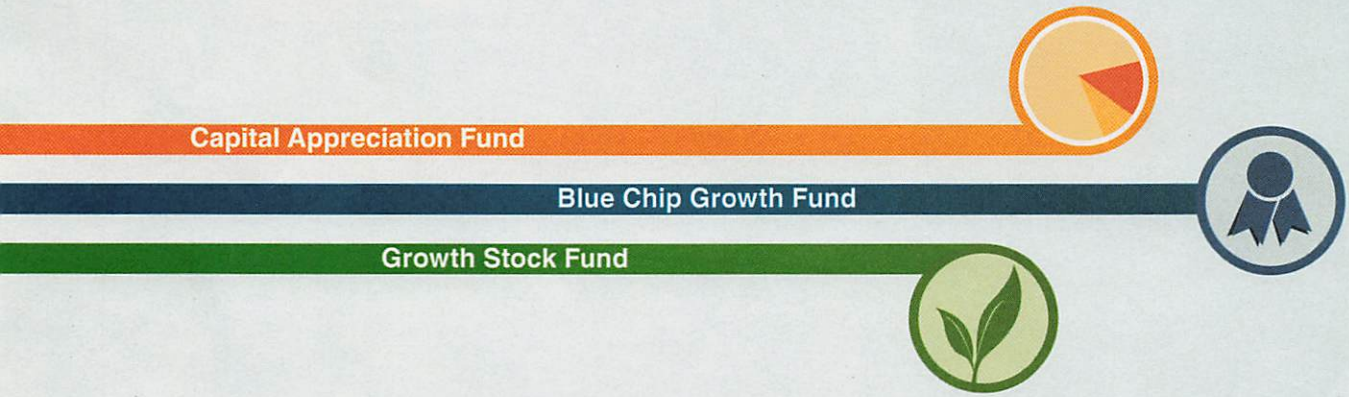

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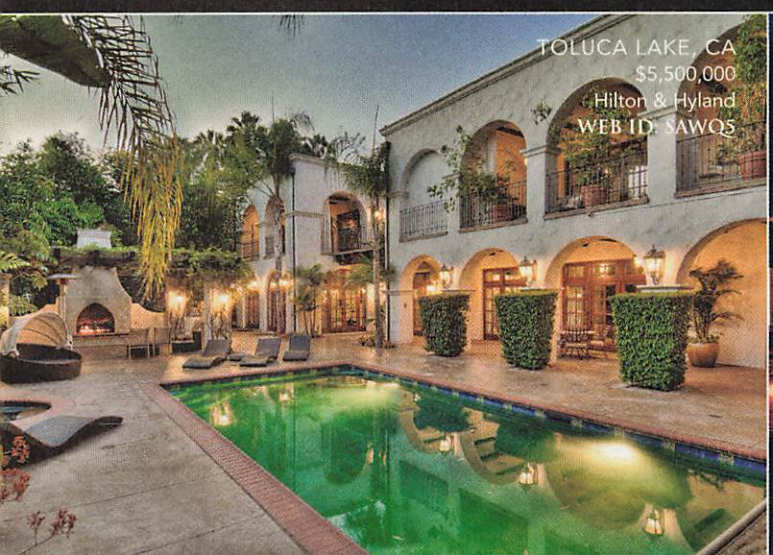

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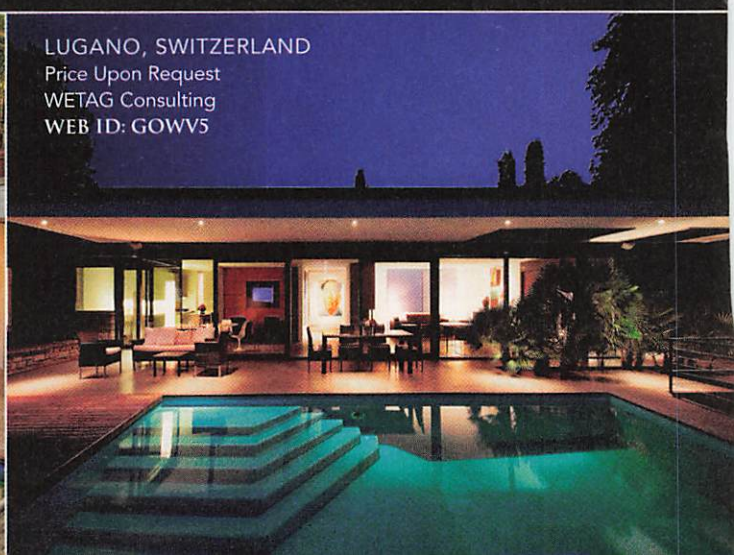

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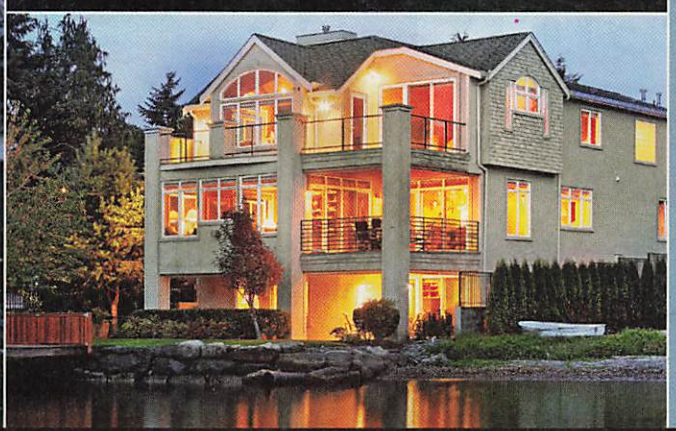

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SmartMoney

How to play the boom that's reshaping the investing landscape.

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Illustration by Ryan Etter for SmartMoney

Photograph by Ken Gillespie/Corbis

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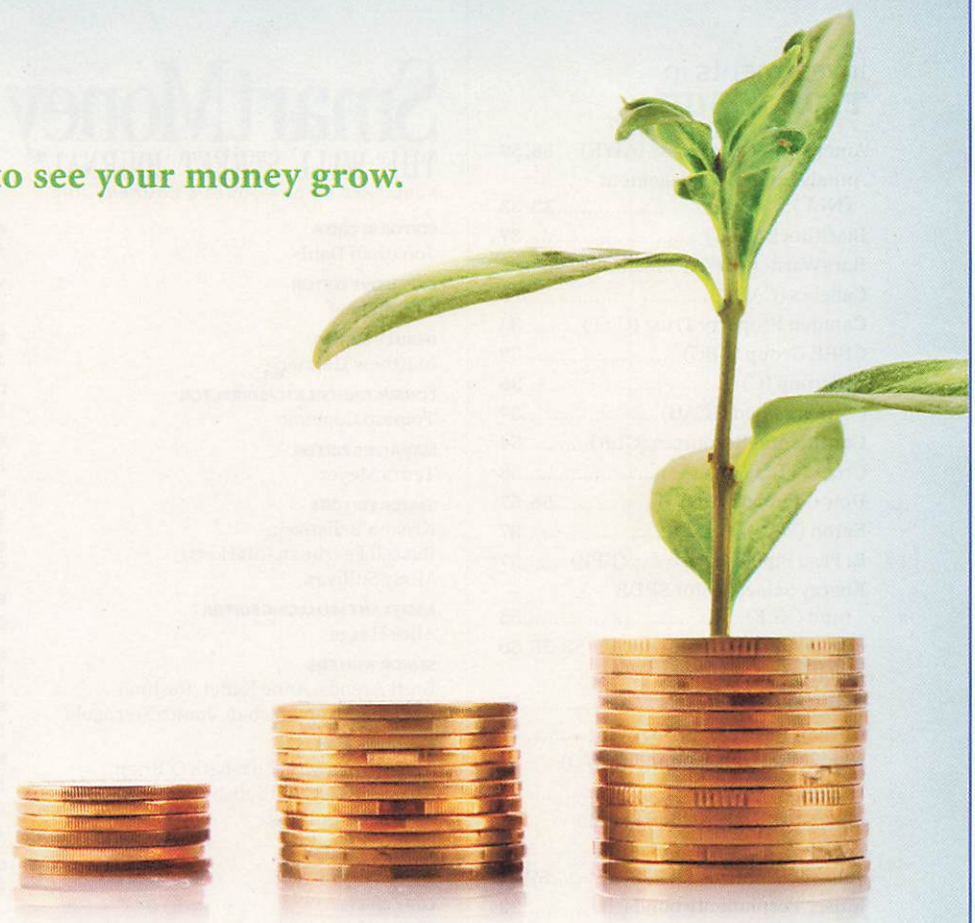

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JONATHAN DAHL
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Declaring Independence

OBSCURED BY ALL THE doom and gloom in Europe and the shaky stock market at home is one piece of news that could be as much of a game changer as any. And that's the rather startling fact that the U.S. may no longer be quite so dependent on other countries for energy after all.

You remember: the power grip that oil-dominating nations in the Middle East once had, which forced us to sit in long gas lines and don second sweaters as we huddled at home with the heat turned down. Fast-forward four decades, and we've discovered that there's much more oil under our own soil than we thought back then—not to mention natural gas in amounts that boggle the mind. And thanks to recent technological advances, we can extract more of these fossil fuels. But the question at hand is just how a potentially "energy independent" America will affect everything from the economy to the green movement—and what it all means to an investor's portfolio. Some of the answers are revealed in this month's cover story, starting on page 52.

WITH JUST A FEW CLICKS, we can find out through online reviews which restaurants have the grumpiest waiters and which hotels took out their minibars. So is it too much to ask that we get the same dish on the people who are supposed to help us with the biggest purchase of our lives—a home? You have to hand it to the real estate community, which somehow has found ways to prevent reliable ratings of agents from popping up in most of the country. In a detailed investigation, staff writer Alyssa Abkowitz takes a close look at this surprising information gap.

FUEL THE PEOPLE: America's oil and gas reserves are changing the rules for investors and consumers. **Page 52**

With many people still unhappy about the current housing market, consumer complaints against brokers are on the rise.
But good luck finding bad reviews of agents online. How the real estate industry is dodging some of its biggest critics.
BY ALYSSA ABKOWITZ

FOOL THE PEOPLE? Real estate agents draw their share of complaints, but good luck finding that info online. **Page 70**

WOO THE PEOPLE: Disgruntled with your stockbroker? These folks would love to work with you. **Page 62**

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Savvy investors are going places – namely Indonesia, Vietnam and Turkey.

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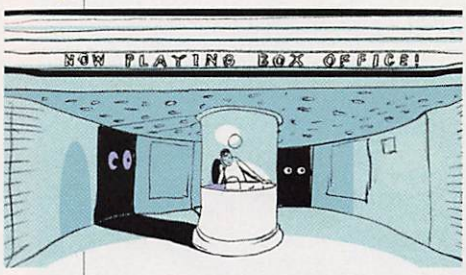

Hollywood Squares

The major problem with today's Hollywood offerings is the lack of originality and creativity ("10 Things Hollywood Won't Tell You," June). Since the mid-1980s, the creative process has been controlled by lawyers, accountants and MBAs who generally have neither the sensitivity nor the training to make aesthetic decisions. Add in focus groups, product tie-ins and pure profit motive, and there has been virtually nothing worth watching (or paying to watch) for the past two decades plus. Did we really need to have *The Three Stooges* produced? —bernard45

POSTED MAY 23

Family Matters

I think this is an insightful article and I appreciate being included ("The Sibling Sinkhole," June). But I'd like to make it clear that all of National Family Mortgage's intrafamily real estate loan products are collateralized through registered, tax-deductible mortgage liens and deeds of trust. While intrafamily loans certainly are not for everyone, our model has proved that such loans can clearly benefit the right families in the right situation. —Timothy Burke
CEO, National Family Mortgage
Norwood, Mass.

Flagrant Fragrances

This article just blew me out of the water (Tough Customer, June)! The very idea that these artificially manufactured, chemical toxins will create a "more compelling environment" is such an ignorant assumption. Many of these fragrances are not natural oils, and these toxins affect our lungs. I am a lung cancer survivor and have educated myself about how to survive. The fact that they are pushing the toxic aroma in a hospital should be investigated. Come on, everyone, these chemical laboratory products are one assault on our bodies that we must stop.

—Maddie44

POSTED JUNE 1

The Size Surprise

Your cover story has educated us about the truth of big funds—namely, that they find it difficult to manage huge sums of money and their returns aren't always the highest ("Too Big to Succeed," May). Some managers even say they would invest the same way, if they were given 2011 to do all over again. Thanks very much for the awesome research.

—Kunal Jain
New Delhi, India

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Which gift-of-the-month clubs are worth it? What are the best ways to cut travel costs? Three times a week, consumer reporter Kelli B. Grant shows how savvy consumers are spending more wisely.

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INVEST

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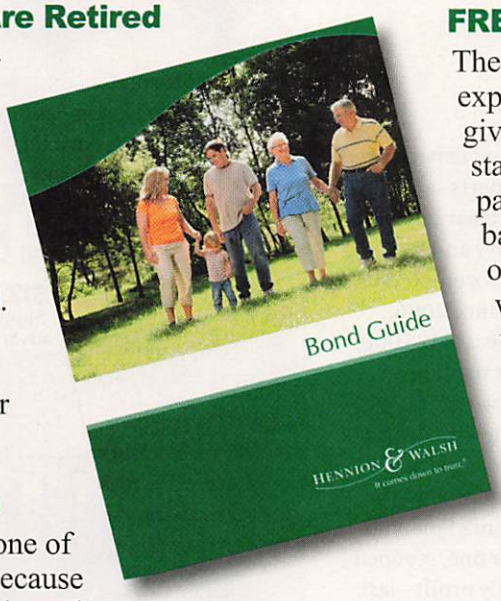

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Peddling Pints

The $8 billion ice cream industry has experienced a sales chill in recent years, but experts say investors with a taste for the right treat can still profit. Trendy brands like Pinkberry and Red Mango, for instance, have helped frozen-yogurt revenues jump nearly 25 percent since 2006. Opening a scoop shop requires at least $175,000, and most successful ventures start turning a profit of about 20 percent within two years, says ice cream business consultant Malcolm Stogo. Outfits that churn their own flavors need more capital for labor and machinery, but pros say it can be a competitive advantage. Jeni's Splendid Ice Creams, in Columbus, Ohio, for one, scooped up $9 million in revenue—and a tidy profit—last year with its homemade flavors. "If we bought some cheap ice cream, we wouldn't have lines out the door," says founder Jeni Britton Bauer.

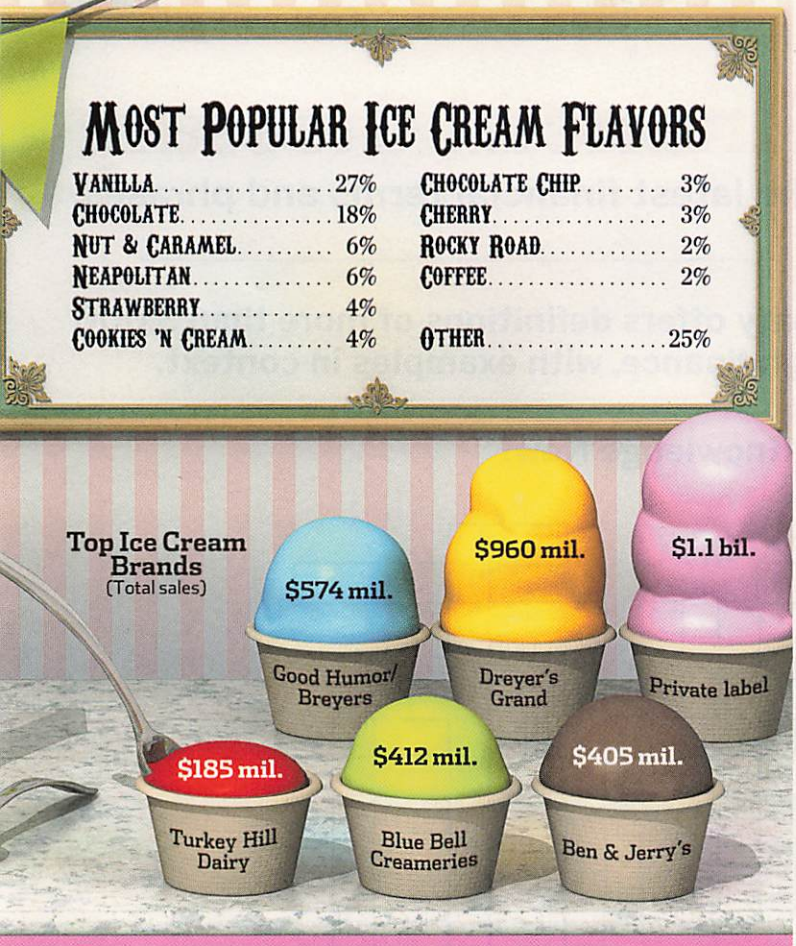
Still, franchises tend to be more successful than small businesses—though they can also cost nearly twice as much. National chain Cold Stone Creamery helps owners with planning and logistics, and says shops post an average of $340,000 in annual sales. But potential owners may need to put their social lives in the deep freeze: Most ice cream is sold during evenings and on weekends. *—Tania Karas*

Alba's New Baby: A Start-Up

The Pitch: While other celebrity investors flock to the latest hot start-up, actress Jessica Alba has gone a step further: She started her own. Alba says she launched The Honest Co., an online retailer of eco-friendly baby and home products, because of her inability to track down certain items for her two kids. "There was a huge market gap, and I felt that we could offer young, modern moms what they craved," the actress tells us. Alba, who now serves as company president, invested her own money in the business (she won't comment on how much) and in March, three major venture capital firms put together a $27

PHOTOGRAPH BY SPLASH NEWS/CORBIS

Infographics by Emily Cooper for SmartMoney



Fat for Flavor

Scooping the tastiest treat will likely mean spending more on ingredients: Experts say the richest ice creams have a high amount of butterfat, the fattiest—and most expensive—part of milk.

SOURCES: COLD STONE CREAMERY; IBISWORLD; NATIONAL ICE CREAM RETAILERS ASSOCIATION; NPD GROUP; SYMPHONYIRI GROUP; USDA; U.S. INTERNATIONAL TRADE COMMISSION

million round of initial funding.

The Business: Alba brought in several cofounders, including serial entrepreneur Brian Lee (founder of online legal-services firm LegalZoom and accessory seller ShoeDazzle) and Sean Kane, former business development executive at price-comparison site PriceGrabber.com. Honest uses a subscription model where buyers pay a monthly fee starting at $36 to receive 12 "bundles" of all-natural diapers, shampoo or detergent a year. This setup helps provide a predictable revenue stream, analysts say.

The Strategy: For a first-time entrepreneur, bringing in seasoned partners is a good move, says John Giannuzzi, managing general partner of venture firm Sherbrooke Capital. In fact, one VC backing Honest says he invested in part because of Lee's involvement. Targeting a niche within a fast-growing market, such as the $11.8 billion natural-personal-care and household-product industry, can also help attract investors. Of course, having Alba's name recognition doesn't hurt either. —*T.K.*

Treasure Hunt

Between the plunging price of solar panels—down about 40 percent last year—and the government's move to dial back subsidies, it's been a cloudy year for the $93 billion solar industry. Still, insiders say new panel tech could mean a brighter outlook for solar on a smaller scale.

LIGHT COMPUTING

Samsung says its solar-powered netbook—designed for places without reliable electricity—is the first of its kind. The machine, which has a 250-gigabyte hard drive, isn't sold in the U.S. but retails for $450 to $650 in Russia, Brazil and parts of Africa.

LUMINOUS LAWNS Ikea's new $30 pendant lamp combines solar and wind power, to stay charged in all types of weather. Ikea says the outdoor lamp will remain illuminated for about 12 hours, after juicing up for as little as nine hours. The firm doesn't release product-specific sales figures but says the lamp has attracted a "huge amount of interest" since it went on sale earlier this year.

READING WITH RAYS

Amazon Kindle users looking for an excuse to spend more time poolside may be interested in SolarFocus's $80 e-reader cover. The company says a charged cover provides at least three months of unplugged reading time. The original is designed for Kindle and Kindle Touch; the maker says it plans to release additional versions this summer. —*Elizabeth O'Brien*

DOWJONES

INTRODUCING

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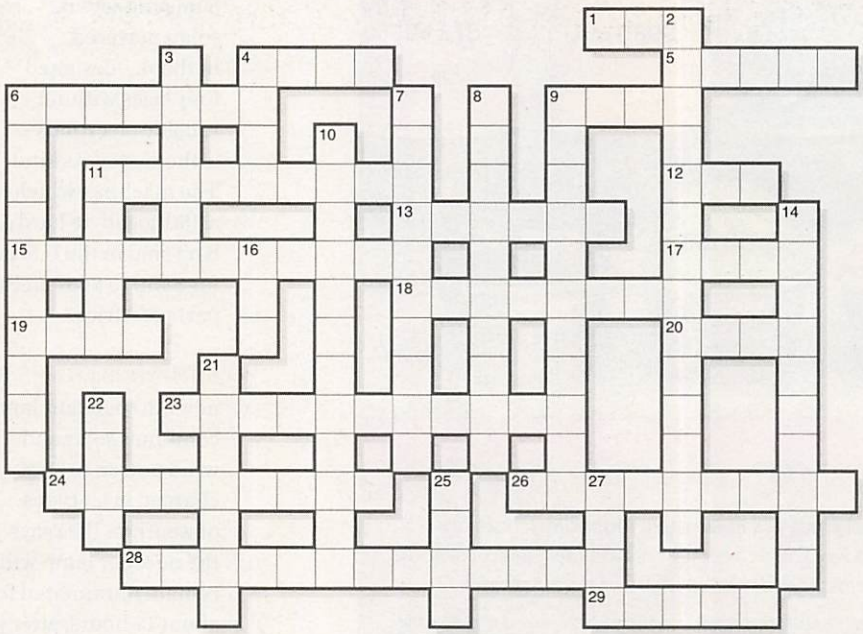

ACROSS

1. Total value of a country's goods and services: Abbr.
4. Type of IRA whose earnings are tax-free
5. Period in which stock prices rise
6. A business lists assets and debts on its ___ sheet
9. Common accounting method: Abbr.
11. Transaction in which one sells borrowed securities expecting prices to fall: 2 wds.
12. World organization that promotes economic cooperation between nations: Abbr.
13. Person who holds a lease
15. Time during which a debt may be paid without further interest or penalty: 2 wds.
17. Advice from a bearish broker
18. Futures market in which longer-term contracts have higher prices than near-term contracts
19. Right to take property until a debt is settled
20. Sales agents, for short
23. Current quoted price of a stock or bond: 2 wds.
24. Person who promises to settle another's debt if that person should default
26. It's levied on an heir who inherits a portion of an estate: 2 wds.
28. Investor in a business who does not participate in management: 2 wds.
29. Person in a transaction who receives money

DOWN

2. Document pledging to pay a sum of money by a specified date: 2 wds.
3. Money received for work or through investments
4. Security that invests in properties and mortgages: Abbr.
6. Short-term arrangement used until a permanent arrangement can be made: 2 wds.
7. Relation between the interest rate and the time to maturity of a debt: 2 wds.
8. Tactic designed to make a hostile takeover prohibitively expensive: 2wds.
9. The capital property of a business, such as buildings and equipment: 2 wds.
10. Corporate expense that rises and falls with production output: 2 wds.
11. Stock unit
14. Extremely rapid drop in the stock market: 2 wds.
16. Mutual fund that is traded on a stock exchange: Abbr.
21. Accounts ___ are moneys owed for goods or services
22. ___ laws prohibit certain business on Sunday
25. Single currency used by France, Germany, Spain and 14 other countries
27. Government program of 2008 created to curb the ongoing financial crisis: Abbr.

For the answers and more financial terms and phrases, visit the Financial Glossary. Powered by wordnik

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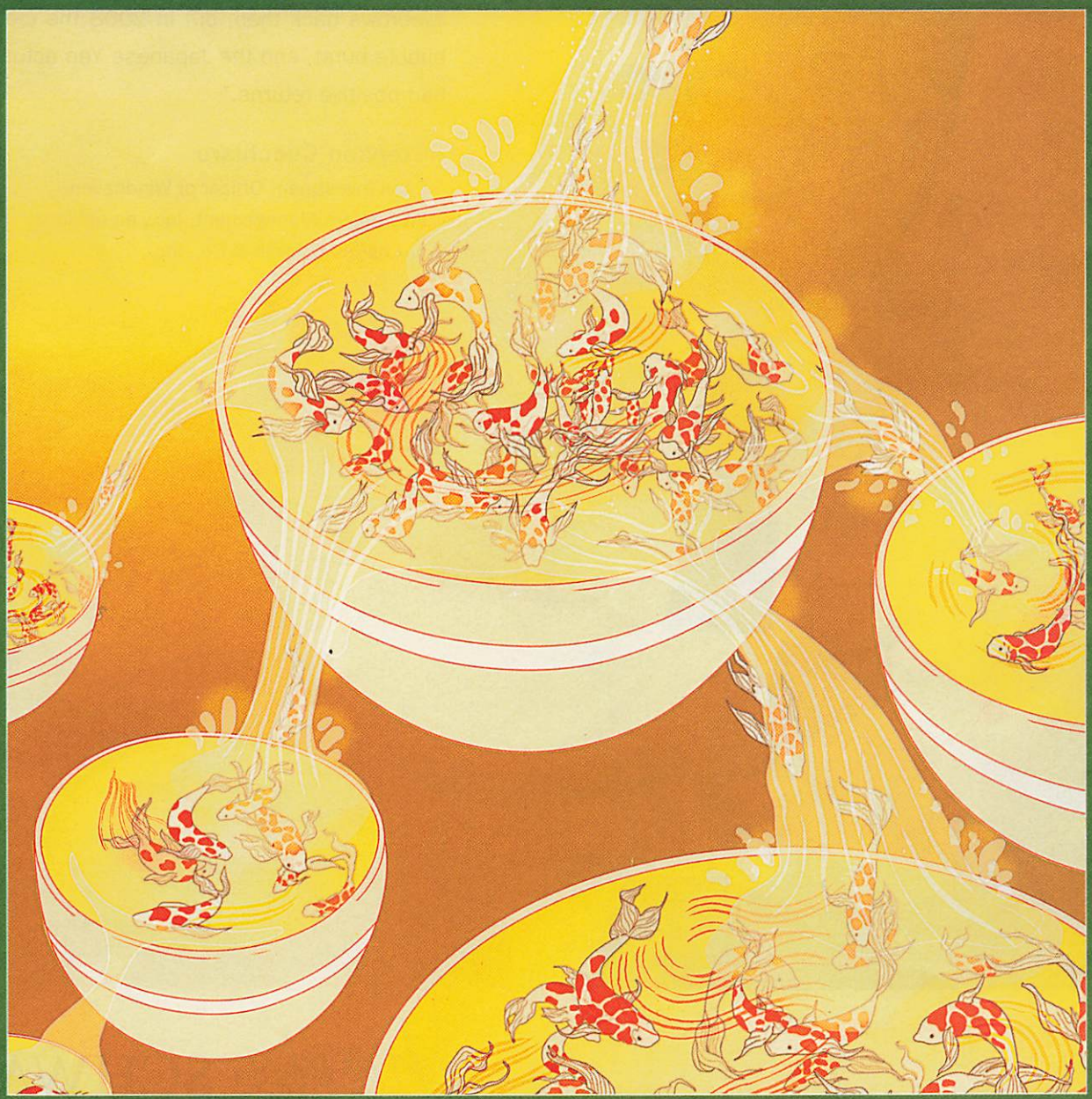


Illustration by Marcos Chin for SmartMoney

Risk Management: THE SCHWAB PERSPECTIVE

A DIFFERENT VIEW OF RISK

"Back in 2007, we realized the hedge funds would need to buy back their Japanese loans and deleverage their risky debt, so we added exposure to the Japanese Yen. This raised eyebrows back then, but in 2008 the credit bubble burst, and the Japanese Yen actually had positive returns."

– Stephen Cucchiaro
Chief Investment Officer of Windhaven Investment Management, Inc., an affiliate of Charles Schwab & Co., Inc.

charles SCHWAB

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Past performance cannot guarantee future results. Diversification cannot ensure a profit or eliminate the risk of investment losses in a declining market. All investments are subject to risk, including possible loss of principal. This material is not intended to be used as a general guide to investing, or as a source of specific investment recommendations. Indexes are unmanaged, do not incur management fees,

Bubbles, crashes and downturns are going to happen. But you can take steps to find opportunity in risk.

It's easy to believe "the markets are broken" when severe downturns hit. But the real problem isn't necessarily the markets, says Stephen Cucchiaro, Chief Investment Officer of Windhaven Investment Management, Inc., an affiliate of Charles Schwab & Co., Inc. Instead, investors may want to more closely examine the very risk models that have been used in efforts to protect them against these events.

Imagining the Future

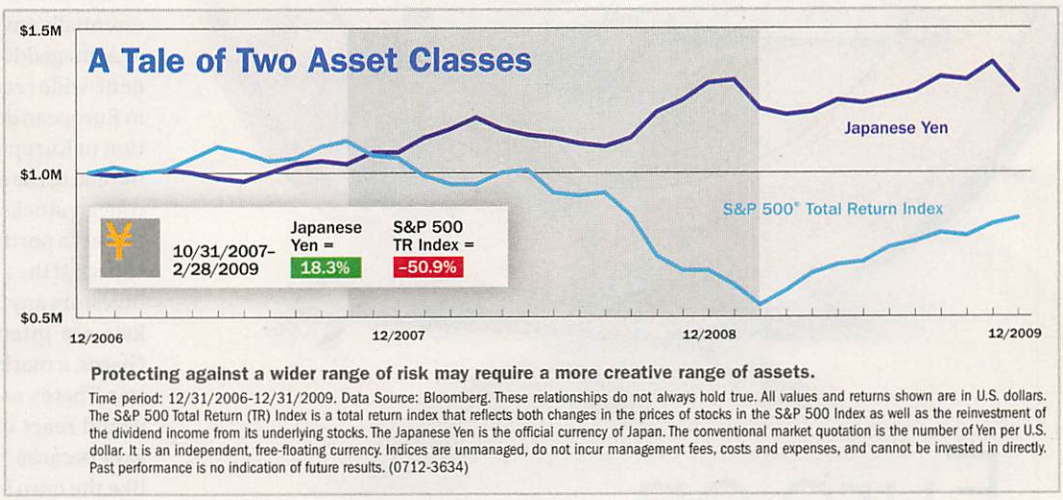
Risk management, in Mr. Cucchiaro's view, isn't a backward-looking exercise based solely on previous events. Instead, it begins with imagining possible future risk factors, even those that seem unlikely.

Mr. Cucchiaro's research has shown that markets function differently, are more erratic, and may require a different approach to risk management than most people have long believed. "Markets are complex systems," he says, "where the interrelationships among different factors can cause extreme fluctuations in price much more often than people expect when relying on traditional risk management tools."

When data are deeply probed, it can lead risk managers to take unusual steps in attempts to safeguard investors. In the mid-2000s, for example, a number of hedge funds were borrowing money from Japan at low rates to purchase risky junk bonds, mortgage-backed securities and collateralized debt obligations. This was one factor that helped fuel the credit bubble, and Mr. Cucchiaro's risk model led him to believe that the situation was unsustainable.

"We realized the hedge funds would need to buy back their Japanese loans and deleverage their risky debt," he says. "So in 2007 we added exposure to the Japanese Yen. This raised a lot of eyebrows because the U.S. stock market and commodities were doing so well at the time."

In 2008, the credit bubble burst. "Many people think every market fell," Cucchiaro says. "But the Japanese Yen actually had positive returns. Protecting against a wider range of risk may require a more creative range of assets," he concludes.



Protecting against a wider range of risk may require a more creative range of assets.

Time period: 12/31/2006-12/31/2009. Data Source: Bloomberg. These relationships do not always hold true. All values and returns shown are in U.S. dollars. The S&P 500 Total Return (TR) Index is a total return index that reflects both changes in the prices of stocks in the S&P 500 Index as well as the reinvestment of the dividend income from its underlying stocks. The Japanese Yen is the official currency of Japan. The conventional market quotation is the number of Yen per U.S. dollar. It is an independent, free-floating currency. Indices are unmanaged, do not incur management fees, costs and expenses, and cannot be invested in directly. Past performance is no indication of future results. (0712-3634)

Spotting Undervalued Assets

Finding asset classes to help mitigate risk is only one part of Mr. Cucchiaro's approach—the defensive or strategic allocation aspect. The second involves identifying undervalued asset classes—the "offensive strategy."

This is based on Mr. Cucchiaro's belief that markets are "micro efficient but macro inefficient." He contends that securities are often efficiently priced within an asset class, making it difficult for an investor to outperform an index with individual securities.

However, he believes that markets are often mispriced when compared across asset classes, such as international small-capitalization stocks compared with U.S. large caps. When guided prudently, Cucchiaro says, "This macro inefficiency can enable investors to take advantage of the eventual effects of changes in monetary policy and other economic factors, as well as changes in investor behavior, to attempt to capture much of the up markets and strive to experience less of the down."

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Euro on The Brink

Investors worried about a U.S. stock slowdown have another scare: the euro. A few options if the currency collapses. By J. Alex Tarquinio

WHEN THE EURO became a reality about 15 years ago, investors wondered how a plan to unite more than a dozen European nations using a common currency could help them prosper. Now, investors already worried about the U.S. stock market's recent turn are desperately looking for ways to avoid losing their shirts if the euro falls apart.

Given the news of the past few months, it's not a stretch to think the euro's end is nigh. What would a worst-case scenario look like? Experts such as Simon Johnson, a professor at the Massachusetts Institute of Technology and a former International Monetary Fund executive, essentially envision a European economic Armageddon: bank failures, a continent-wide recession, trillions of dollars in European debt default, rampant inflation in Europe and, not to be forgotten, the end of the euro. Simply shunning European stocks might not be enough to protect a portfolio, if that disaster comes to pass. If the 2008 financial crisis taught investors anything, it's that global markets are interconnected, says Jeremy Glaser, a market strategist at Morningstar. There's no way to know how markets would react if Greece left the euro, he says, because "we haven't had a currency like the euro before."

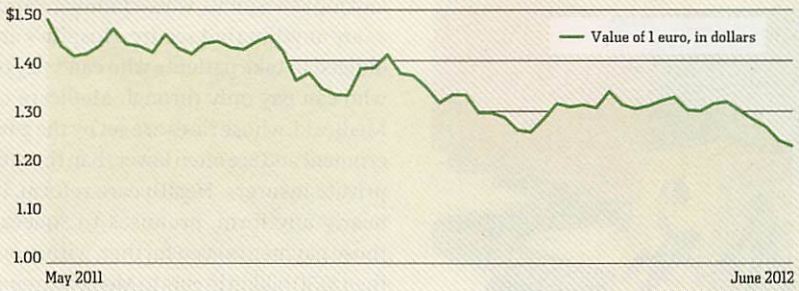
Still, market strategists think the likelihood that one country after another will dump the euro remains remote. David Darst, chief investment strategist at Morgan Stanley Smith Barney, says that sort of "economic contagion" is doubtful because, if the euro value starts to go into free fall, central bankers in Europe, the U.S., China and Japan will all step in to support the currency. "All of these authorities would come up with this massive policy response to prevent contagion spreading to Spain, Italy or Portugal," Darst says.

But the once-unthinkable idea that Greece might leave the euro and return to the drachma—called the Grexit by Wall

Illustration by Ryan Etter for SmartMoney

One-Way Trip

The shakiness in the finances of many euro-zone nations has persuaded some investors to sell euros and buy dollars.



Data as of 6/1/12. SOURCE: BLOOMBERG

Street wordsmiths—has become a real possibility, experts say. Many Greeks have begun taking their savings out of local banks and depositing them in banks in other European countries, notably Germany. Still, some experts say, at this point, the consequences of Greece leaving the euro might not be all that bad for investors. European stocks are down about 7 percent since the Greek election in May, a shift that might already price in a currency switch. If Greece leaves in an orderly way, and the "rest of Europe rings it with a fence" so that investors feel protected against a wider foreign exchange crisis, then the markets can handle it, says Stu Schweitzer, vice chairman and global markets strategist at J.P. Morgan Private Bank.

But after the 2008 financial crisis, many experts are willing to believe that the worst is possible. If a Greek exit inspires a similar move by other countries struggling with debt, such as Portugal and Spain, then the entire European economy will suffer, Schweitzer says. That's when the dominoes could really start to fall. Individual investors have few good options to protect themselves against such a scary scenario. There's always running to the safe haven of U.S. government debt, but with the 10-year Treasury yielding 1.6 percent, near an all-time low, don't expect any great returns. Indeed, even today's low levels of inflation effectively wipe out the value of the interest a Treasury would pay. Also, speculating on the euro's value can be risky. Yes, the euro has fallen almost 20 percent against the dollar in a year, but even the pros can lose money betting against a major currency like the euro, which still has strong support from international investors. Central bankers can't afford for the euro to fail—they, too, hold the currency.

Of course, there are some who see the European mess as a way to pick up stocks on the cheap (see our ROI column, on page 25). But for many investors, minimizing losses is the first priority. One way to reduce euro risk is to choose foreign stock mutual funds that hedge the currency exposure themselves. A simpler option: Own relatively few shares of companies that either trade on European exchanges or get most of their sales in Europe. J.P. Morgan Private Bank is recommending that clients take roughly half of what they would have invested in European stocks and instead put it in U.S. stocks or, if they're really fearful, cash. Darst says a good way to protect a stock portfolio from the bad economic winds in Europe is to tilt it toward domestic, defensive-style holdings like utilities, telecommunications and real estate investment trusts. If the euro continues to weaken, Darst says, the dollar value of the earnings that U.S. companies make in Europe will be worth less.

2008 REDUX?

A stock market pullback. Concerns about debt. A sinking feeling that it can only get worse. Is this 2012—or 2008? Analysts say that if the following things come to pass, the world might be looking at Lehman Brothers 2.0.

A Bank Run. If investors flee Spanish and other European banks, the institutions might not have enough money to lend, bringing the European economies to a standstill. "Deposit flight has been accelerating," says David Darst, chief investment strategist at Morgan Stanley Smith Barney. European leaders seem willing to bail out Spanish banks to prevent a panic.

No Cooperation. Analysts say it would be a big blow to confidence if European leaders can't agree on a bank-deposit guarantee. The U.S. government was able to ease the post-Lehman panic by strengthening bank-deposit insurance and guaranteeing money market fund assets.

6%
5-year average annual return for hospital bonds

Will the Healthy Returns Last?

Hospitals are facing funding cuts nationwide, but their municipal bonds continue to make money for investors. By Ian Salisbury

EVEN IN THE best of times, hospitals try to figure out how to balance the books while serving a significant number of patients who are unable to pay. And these days, they have to deal with a weak economy and the specter of cuts in government funding in 2013. So it may come as a surprise to some investors that these under-assault health care centers have been among the best-performing investments.

Indeed, municipal bonds issued by hospitals have returned 6 percent in 2012 and 15 percent over the past year, far outpacing the average muni bond's return. Since the gains on many of these bonds are immune to some taxes, their effective returns are even higher. Analysts attribute the great performance to the push by some investors to find higher-yielding investments. Hospital bonds have an average yield of more than 3 percent, compared with about 2 percent for municipal bonds on the whole.

It's all the more perplexing that, in a world in which many people are avoiding certain investments—particularly stocks—because they seem too risky, investors are looking at hospitals, whose funding sources are anything but secure. Hospitals are obliged to take patients who can't pay or who can pay only through Medicare or Medicaid, whose rates are set by the government and are often lower than those of private insurers. Health care reform, in nearly any form, promises to squeeze those payments even further, with more than $150 billion in cuts to Medicare reimbursement rates, among other reductions.

Despite all this, investment managers say other factors, from razor-thin Treasury yields to the relatively light supply of hospitals looking to borrow, mean these bonds can pay off. Hospitals and other health care facilities sold $27 billion worth of municipal bond debt in 2011, less than half of what they sold in 2008, according to *The Bond Buyer*. There's still a nice difference between what a hospital bond will pay and what an average municipal bond of similar credit quality will pay, says Rob Amodeo, co-manager of the $5.5 billion Legg Mason Western Asset Managed Municipals fund.

Some pros say bonds from standalone hospitals might offer the best bargains. But many experts prefer big multi-hospital systems, because they have more financial stability and might have an easier time adopting cost-saving technologies such as medical-record and billing software. Becoming more efficient will be a necessity if funding cuts really are in the cards. "The big systems have the scale. They're run like corporations," says Robert DiMella, comanager of the $571 million Mainstay Tax-Free Bond fund. Among the bonds in DiMella's portfolio: 30-year, A+ bonds backed by California's Kaiser Permanente, yielding 5.3 percent, and 26-year, triple-B+ bonds backed by Mountain States Health Alliance, which operates in several Southern states, yielding 4.2 percent.

Illustration by Matt Collins for SmartMoney

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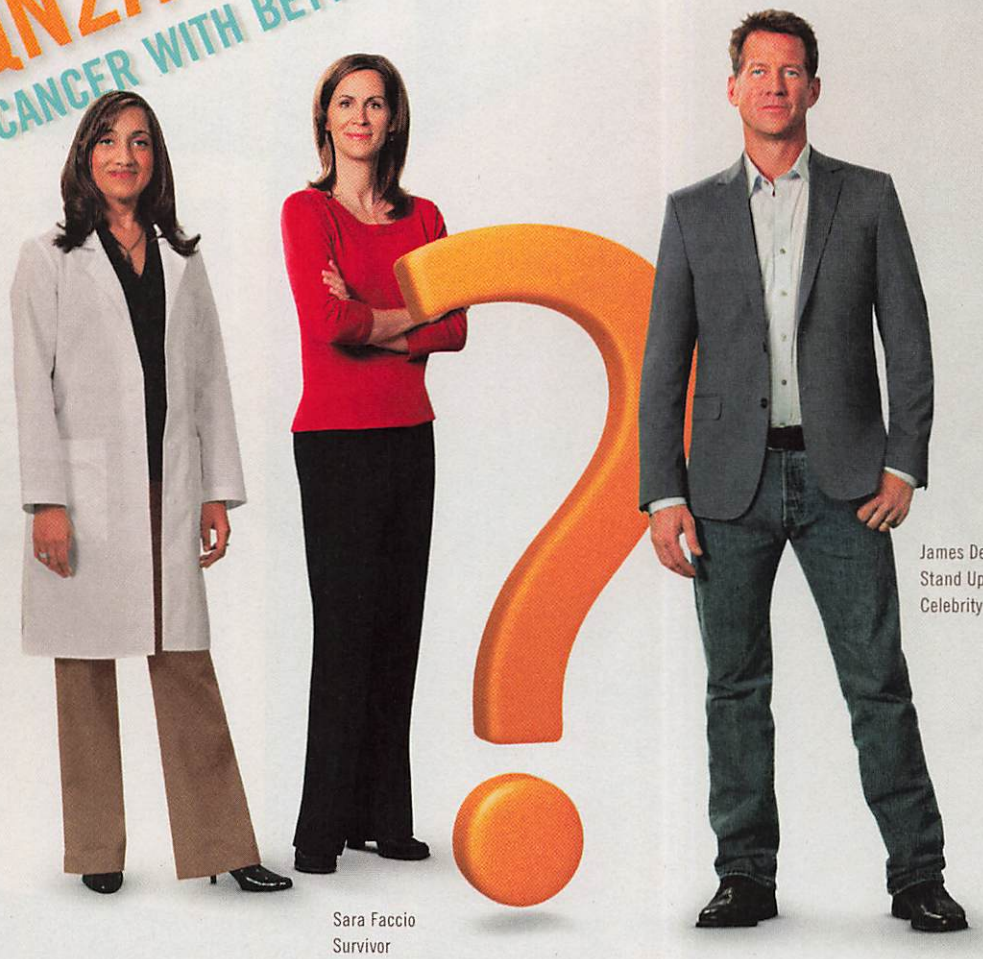

Dr. Shayma Kazmi
Medical Oncologist

Sara Faccio
Survivor

James Denton
Stand Up To Cancer
Celebrity Ambassador

With cancer, having questions doesn't make you weaker. It makes you stronger. The more you ask, the more you know, and the more you can stand up to cancer. So we've created QN2A.org, a powerful new online resource of all the Big Questions that can help both patients and caregivers after a cancer diagnosis. Discussing these questions with your healthcare professional can help you collectively arrive at the treatment plan that's best for you—turning those questions into answers. And while you're at QN2A.org, help us grow the list by sharing the questions that helped you the most. Together we can find the right answers. Without question.

James Denton, Stand Up To Cancer ambassador, has helped family members navigate their cancer treatment.

Stand Up To Cancer is a program of the Entertainment Industry Foundation (EIF), a 501(c)(3) charitable organization.

Cancer Treatment Centers of America
Winning the fight against cancer, every day.

STAND UP TO CANCER

"To bad economic news, a stock investor should respond, 'So what?'"

BRETT ARENDS is a senior writer at SMARTMONEY. His latest book is *Storm Proof Your Money.*

NO ONE WANTS European equities. No one wants to touch them, no one wants to hear about them. Fund managers on the golf course brag about how few they own. Start a conversation about European stocks at a cookout, and people will look at you and laugh.

The reasons, of course, are as plain as the hotdogs on the barbecue. Those lazy people over there "work for 10 months of the year and get paid for 14," as one money manager put it to me a while ago. Even when this euro crisis is finally over—and it's now in its third year—Europe will be doomed to years of stagnation and decline. The banks are worthless. Greece and Spain are broke. Italy, Portugal and Ireland are not far from it. France has even gone "socialist." Sacre bleu! How long until the guillotine is erected once more before a baying mob in the Place de la Concorde, and the heads of stockholders start bouncing like soccer balls into the Seine?

The continent hasn't been written off like this since 1940 (or maybe not since 1349, the year of the Black Death). Europe is finis. *Finito.* Pick your language. It's kaput.

You can mark me as skeptical about some of this. But forget that. Let's assume for the sake of argument that this point of view is correct. Investors should nonetheless greet it with a very simple response: "So what?"

39% Drop in Stoxx Europe 600 index since 2007

It's counterintuitive, but investors' returns have very little to do with the growth of a country's gross domestic product—and almost nothing to do with the GDP for the next quarter or even next year. Wall Street's obsession with these things is institutional, not rational. It's all a con.

In the half century from 1958 to 2008, whose economy grew faster, Sweden's or Japan's? The answer, as most people would have guessed, is Japan's. According to research firm MSCI Barra, Japan grew 4.5 percent a year on top of inflation over that period, whereas Sweden managed less than 3 percent. But which country's investors made more money? The contest isn't even close. MSCI Barra says Swedish investors in real terms beat the Japanese by an average of three full percentage points a year.

This is no mere fluke. MSCI found no major correlation between GDP growth and stock returns across many other major markets during that time frame. Nor have others: A few years ago, Jay Ritter, a professor of finance at the University of Florida, calculated that over the 20th century the correlation between the two was actually negative.

To most investors, this sounds completely upside down. How can this be?

One reason is that investors usually overpay for stocks in faster-growing economies, just as they overpay for stocks in glamorous "growth" industries. History is emphatic: This is

There's Growth...and Then There's Growth

A fast-growing economy doesn't guarantee big gains for investors. Over the past quarter century, Thailand's economy has grown more than twice as fast as Denmark's, but Danish stocks have trounced Thai equities.

Includes all large- and midcap stocks in each country.

SOURCES: INTERNATIONAL MONETARY FUND; MSCI BARRA

For more of Brett Arends's ROI columns, go to SmartMoney.com.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

usually a bad move. A stock is just a claim on a company's future dividends. No more, no less. If you pay too much up front, no one can help you.

A second reason is dilution. Booming economies attract a lot more capital. New companies spring up to compete with the old ones. Investors in the old ones do not benefit. Here at home, Facebook hopes to do to Google what Google did to Yahoo. The stockholder in Yahoo does not benefit. Some studies estimate that in fast-growing emerging markets, dilution may cost you about 2 percent a year.

A third reason is that markets and companies are now global anyway. Is LVMH Moët Hennessy Louis Vuitton, the Paris-based luxury-goods company, European or global? What about Royal Dutch Shell? Or Porsche?

For these reasons and more, long-term stock returns aren't tied closely to their host country's GDP returns. Short-term GDP figures are basically moot. Stocks are very long-term assets. Ben Inker, head of asset allocation at Boston fund firm GMO, calculates that as a rule of thumb, only about a quarter of a stock's value is derived from the next 10 years' earnings. The real value lies in all those profits and dividends it will pay in the distant future. Next year's earnings? They're irrelevant. The only reason a sensible investor might care about them is hope that a panic will cause short-termists to dump the stock—letting smart folk buy more of it, cheaply.

It's counterintuitive, but investors' returns have very little to do with the growth of a country's economy.

Europe today is not the kind of free-money cheap you saw in, say, the 1930s or the 1970s, but it is cheap. Western Europe overall trades for about 10 times forecast earnings, says FactSet. It sports a dividend yield of nearly 4 percent. Spanish stocks yield nearly 7 percent. Italy trades for two-thirds of book value. By these and other measures, the markets are considerably cheaper than the U.S.'s.

The sweet spot for investors lies in large caps. Many household names, blue-chip companies with global operations, have seen their prices sucked down along with everything else.

In normal circumstances, I'd recommend buying an index fund, such as an exchange-traded fund, to get cheap exposure to a wide range of large caps. The Vanguard MSCI Europe ETF (VGK) owns the biggest 350 companies by market value; the iShares MSCI EMU Index fund (EZU) excludes the London market and

ACURA
ADVANCE.

focuses only on the euro-zone countries.

This may still be a reasonable move, but it comes with a drawback: About 17 percent of your money goes into financial stocks. European banks are an unknown, much as U.S. ones were four years ago. Many will need to raise money to repair their balance sheets. Personally, I would avoid them altogether. I don't like betting on unseen cards. I see plenty of appealing blue-chip stocks without having to touch financials.

Those who want to buy individual stocks instead can do so quite easily. Most major European companies have American depositary receipts trading here. Take Tesco (TSCDY), for example. Warren Buffett is an investor in this British supermarket chain, though he paid more than current prices for the stock. Tesco is expanding rapidly outside the U.K., from Poland to China; Asia already accounts for nearly a fifth of its revenue. The stock trades at nine times earnings, yielding 5 percent.

0%
Europe's GDP growth, Q1 2012

Growth outside of the Continent is a theme for a lot of European blue chips. Sanofi (SNY), the French drug giant, now gets barely a quarter of its sales from Western Europe; emerging markets account for more. Sanofi is diversified across consumer health care products, pharmaceuticals and biotech, and bought U.S.-based Genzyme in 2011. It's another Buffett pick, and again, you're getting it cheaper than he did. It trades at nine times forecast earnings, with a 3.2 percent yield.

Some other pharma companies could also appear on a bargain hunter's list. GlaxoSmithKline (GSK), the U.K.-based monolith that makes everything from vaccines to mouthwash, is yielding more than 5 percent. Novartis (NVS), headquartered in Basel, Switzerland, has branched out in recent years into generic-drug production and eye care as well as high-margin oncology drugs. It trades at only about 10 times forecast earnings.

In the energy sector, European debt fears, France's left turn and falling oil prices have all taken their toll on stockholders in Total (TOT). Its ADRs have tumbled, flirting with lows last seen eight years ago. Is that a buying opportunity? At six times forecast earnings, with a 6 percent dividend yield, Total looks pretty cheap.

The list of cheap multinational targets goes on, but the biggest takeaway is this: At a time when most investors in the U.S. are scrabbling to earn any interest, a portfolio of European blue chips, even without any financials, can earn 4 percent or more in dividends.

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Sole Searching

Skechers thinks there's room for another running-shoe firm. Analysts aren't so sure. By Sara Germano

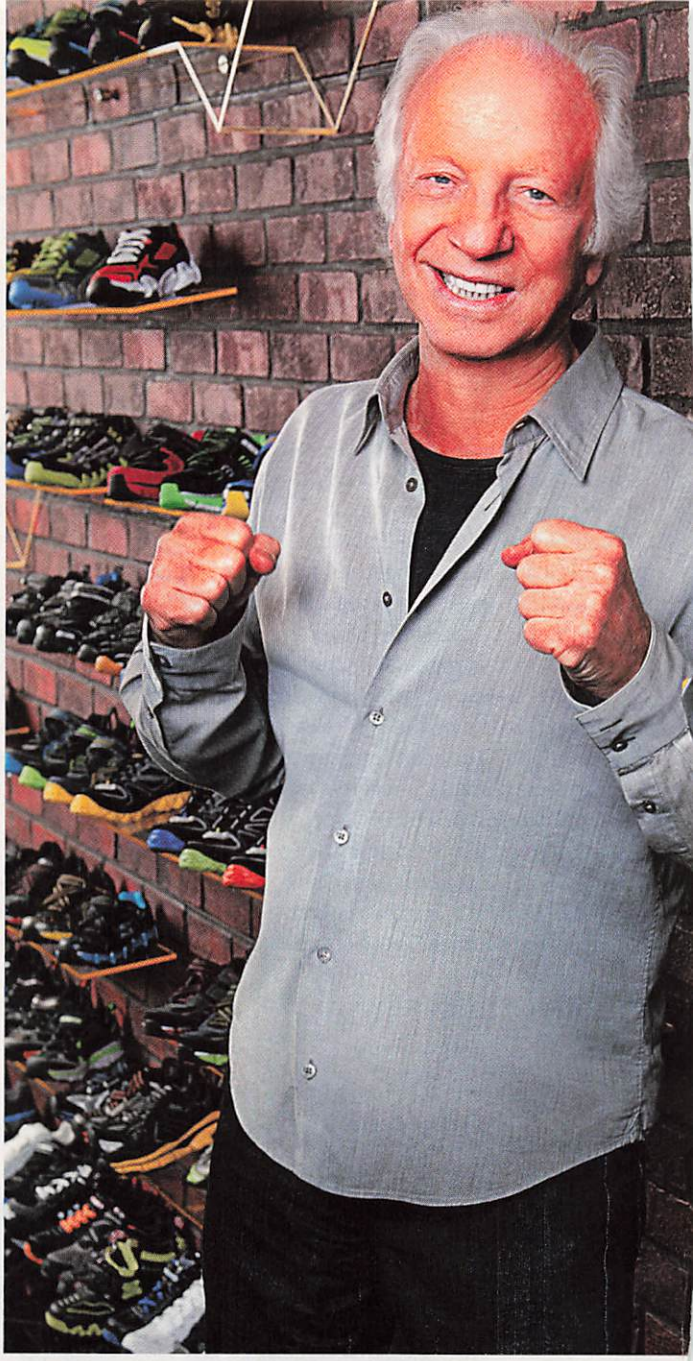
ROBERT GREENBERG doesn't do things halfheartedly. For 20 years, the Skechers founder and CEO has pushed his designers to create trend-savvy, reasonably priced shoes for kids and tweens, and he has signed up the likes of Britney Spears to hawk the often-sparkly footwear. When Greenberg thought there was a big market in shoes that could help people lose weight, he had his firm manufacture 10 million pairs of Shape-ups in a year (that trend didn't last, and without admitting wrongdoing, Sketchers agreed to pay $40 million to settle civil charges by the government that it made too-lofty promises). "He can go from zero to 60 superfast, and 60 to zero just as fast," says Sam Poser, a footwear analyst at investment bank Sterne Agee.

Greenberg's latest full-speed project is leading Skechers headfirst into the huge running-shoe market, an area dominated by the well-heeled Nike and Adidas. He's hired America's top marathon runner, Meb Keflezighi, to wear Skechers during his race at the Olympics. Greenberg says his company can make shoes that are similar in quality to the big brands' and can sell them at lower prices; the technology evolved from research Skechers did when developing Shape-ups. "Our marketing is lighthearted and fun, but this is a serious product," he says, exuding the frenetic energy of a start-up entrepreneur.

U.S. sales of running shoes in 2011

Some analysts, however, are skeptical. While Greenberg hopes the running shoes can make up half the firm's sales ($1.6 billion in 2011) within three years, Wedbush Securities' Corinna Freedman isn't confident that its running shoes are taking off. The firm's track record—it often makes a huge profit one year, then falters the next—also raises some analyst eyebrows.

Greenberg, 72, makes no apologies. Worldwide, everyone wears athletic shoes, he says, and people want American brands. In Skechers' Manhattan Beach, Calif., headquarters, Greenberg recently took SmartMoney through the showrooms, pointing out glittery shoes that have a built-in spinning wheel ("You can turn like a ballerina," he says) and new pairs of running models. The Boston native talked about why there's room for another athletic-shoe brand and how much longer he plans to stay in what he calls "the hardest business in the world."



Who is the Skechers customer?
Thirty percent of our business is just children—if I could do one thing for the rest of my life, it would be to make little girls shoes. I love it. But the Skechers customer is the whole family. I'm always looking at what people wear. It's hard for me to look above a knee when I see people. When I go to a ball game, I get an aisle seat and check out 80 people who are walking by.

Why did you get into the performance-shoe business? Didn't you try this when you ran LA Gear?

Photograph by Mike Medby for SmartMoney

Greenberg with Mega Flex, a character Skechers invented to help sell boys shoes.

LA Gear was the lightweight version of an athletic-shoe company. Now I'm trying to be a heavyweight. We sell 70 million pairs of shoes a year, so we have some fans. It's not going to be that we took down Nike or Adidas, but we want a piece of the performance business. To grow [revenue] beyond $1.6 billion, we need to be in that market.

How will the Shape-ups experience change how you market shoes?
Everything changes you all the time. Now I understand more about how the government works. We as a company believe we did nothing wrong. We simply duplicated what a company called MBT did. The height of Shape-ups was the most money we ever made in a year. Unfortunately, the cost and time it would have taken to prove ourselves right would have been more than double the cost of settling with the government.

And now you have a lot of unsold Shape-ups?
The inventory [surplus] was from the crash and burn that happened afterward—there was twice as much product in the marketplace as needed. A lot of companies were making versions of that shoe, and the retailers bought too many of them.

You're not a chief sponsor of the Olympics, so why endorse Olympian Meb Keflezighi?
Meb was presented to us by an agency. It turned out really well. He came in and worked with our guys on performance shoes for a few months and helped let us know what to do a little better.

What will be the next big trend?
The Ugg thing is getting tired; there has to be a break. The whole goal is finding what customers don't already have in their closet. What will be popular for fall are hidden-wedge shoes for women. Colorful footwear is also happening, so we're making lots of colored mesh sneakers. If you buy one fuchsia shoe, how many things can you wear with it? You have to buy the other colors.

You're 72. How long do you see yourself in this business?
The shoe business is the hardest in the world. There's nothing you wear that fits like a shoe. If you put a dress on that doesn't fit, you can take it in. But shoes have to be the right size, length and shape. I made enough money to retire at 40, and I'm still not retired. As long as I'm healthy, I don't want to miss any of the action.

ATHLETIC SHOES, PART TWO

Robert Greenberg's first big shoe foray was LA Gear, a firm whose footwear made a splash in the late 1980s but quickly faded. In 1992, Greenberg left LA Gear and, six months later, started Skechers.

SKECHERS
(SKX)

PRICE
$18

EST. 2012 NET INCOME
$5.6 mil.

EST. 2012 EPS
$0.06

EST. 2012 P/E
323

MARKET VALUE
$919 mil.

Data as of 6/7/12. SOURCE: BLOOMBERG

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Illustration by Marcos Chin for SmartMoney

Is It Time to Buy Into Real Estate?

Turns out, some savvy pros are finding the sunny side of all those falling home prices and foreclosures. How to venture safely into the sector. By Reshma Kapadia

TO MOST PEOPLE, U.S. real estate still stinks. More than a third of all mortgages are under water, with their holders owing more than their houses are worth. Home prices continue to fall in many areas of the country, and thousands of foreclosed homes are still waiting to be sold. Yet an investor no less than Warren Buffett recently said that if he could, he would buy up a couple of hundred thousand single-family homes.

To Buffett and others with short memories or long time horizons, the investment opportunity created by the housing bust is just that great. Buying up subdivisions full of houses isn't quite practical, so instead, many savvy pros are scooping up real estate investment trusts, homebuilder stocks and even a physical house here and there. Economists point to several indicators that suggest their confidence could be well-placed. Mortgage delinquency rates fell to 2008 levels in the first quarter, housing starts are improving, and bidding wars are breaking out in certain cities. "The housing crash is over," says Mark Zandi, chief economist at Moodys.com.

At least some investors believe in the recovery: They've poured $1.7 billion into global real estate funds this year, even as stock funds continue to experience outflows, according to Morningstar. Apartment REITs have been among the big beneficiaries of new money. Home ownership is down four percentage points—to 65 percent—nationwide from the mid-aughts, and more people are living in rented apartments. "These REITs are the primary beneficiary of all things bad in single-family housing," says Jim Sullivan, managing director at research firm Green Street Advisors in Newport Beach, Calif. Landlords are raising rents and there isn't much new construction in most markets. Apartment REITs are generating profit growth not seen in years. Despite the 15 percent gain the group has logged over the past year, Rick Romano, comanager of the Prudential Global Real Estate fund, still favors such REITs because there are few signs that renters are about to buy new homes en masse.

Some managers, meanwhile, are looking for ways to play real estate without betting on a nationwide robust recovery. Mortgage REITs such as Annaly Capital Management are "less a bet on property values and more on companies taking advantage of an attractive funding market," says Jason Brady, comanager on several income-oriented funds for Thornburg In-

vestment Management. For investors with some extra money, upgrading existing homes or buying other properties is becoming an increasingly attractive option. Debbie DeMatteo, cofounder of the Goshen, NY.–based advisory firm 10-15 Associates, recommends investors nab a mortgage at historically low rates, even if they already have cash. Some pros also are adding home-builder stocks, on the bet that hammers will have to be picked up at some point to meet demand.

To be sure, residential real estate isn't roaring back, and economists say there could still be more price declines. Commercial REITs have had a strong two-year run and aren't dirt cheap. Analysts say a global economic slowdown could halt both recoveries quickly. In short, REITs are hardly foolproof. During the downturn, many such trusts even cut or eliminated dividends. Nevertheless, the investment opportunities look too good now for some pros to pass up. Dean Catino, cofounder of Monument Wealth Management in Alexandria, Va., allocates about 20 percent of his clients' portfolios to real estate. "We are leery of the general bond market and think real estate is a good hedge," he says.

Smart Picks

Some investors are ready to get back into real estate investing, using REITs, home-builder stocks or exchange-traded funds.

SIMON PROPERTY GROUP (SPG, $149)
The firm's malls and outlet stores helped generate, on average, $546 in sales per square foot, surpassing precrisis levels. It also recently bought French firm Klépierre and has partnered with a Brazilian firm to develop outlet malls. Simon increased its dividend three times in the past year.

MARKET VALUE
$45.4 bil.
EST. 2012 EPS
$3.74
EST. 2012 P/E
40

ANNALY CAPITAL MANAGEMENT (NLY, $17)
Mortgage REITs are a bet that the cheap-interest-rate environment will continue. Jason Brady, a Thornburg income-fund comanager, says Annaly has one of the sector's more experienced management teams and has done a good job amid recent market volatility.

MARKET VALUE
$16.2 bil.
EST. 2012 EPS
$2.05
EST. 2012 P/E
8

CAMDEN PROPERTY TRUST (CPT, $66)
This apartment REIT benefits from fairly strong job markets in Dallas and Houston. Camden has "high quality" multifamily properties and a management team to take advantage of them, says Rick Romano, comanager of the Prudential Global Real Estate fund.

MARKET VALUE
$5.2 bil.
EST. 2012 EPS
$1.46
EST. 2012 P/E
45

CBRE GROUP (CBG, $16)
The world's largest commercial real estate services firm, CBRE often acts as a broker in transactions and operates commercial real estate. It benefits from consolidation in the industry, as well as from more corporations outsourcing the management of their facilities, says John Miller, portfolio manager of the Ariel fund. About 10 percent of CBRE's revenue comes from investing in real estate itself.

MARKET VALUE
$5.3 bil.
EST. 2012 EPS
$1.22
EST. 2012 P/E
13

SPDR S&P HOMEBUILDERS (XHB, $20)
With REITs doing well, financial planner Debbie DeMatteo has turned to the stocks of home builders for her clients. Many of the stocks have risen significantly, but DeMatteo says they are still 50 percent below precrisis levels. To reduce the risk of picking the wrong name, DeMatteo sticks with ETFs to gain exposure not only to home builders such as Lennar and PulteGroup but also to housing-related plays like Home Depot and Williams-Sonoma.

MARKET VALUE
$1.2 bil.
NO. OF HOLDINGS
36
FEES PER $10,000
$35

SOURCE: BLOOMBERG

Imperfect Copy

The industry's attempt to create ETFs that mimic popular mutual funds isn't working as investors expected. By Ian Salisbury

SOMETIMES TWO sports cars with the same chassis, hubcaps and hood ornaments can have radically different engines. It's not just true for automobiles. Investments that are designed by the same company to look—and act—alike can end up performing in dramatically different ways.

Experts say that might turn out to be the case with exchange-traded-fund versions of mutual funds. An ETF, of course, is a product that bundles a bunch of investments and can be traded like a stock. Here, the ETF copies the holdings of a popular mutual fund. The Pimco Total Return ETF (BOND) has been a smash hit so far. Since debuting in February, the ETF, which follows the $261 billion Pimco flagship fund (PTTAX), has attracted more than $1.2 billion itself. Pimco wants to issue more ETFs that follow its funds; other fund firms like the idea of fund-tracking ETFs, because ETFs are cheaper to operate, says industry consultant James Pacetti.

18,000 Number of holdings in Pimco Total Return mutual fund

There's only one hitch. So far, there's not much of a resemblance between the Pimco ETF and the mutual fund it purportedly tracks. Indeed, the mutual fund has around 18,000 holdings; the ETF, not even 500. The mutual fund has a slew of interest rate swaps, credit contracts and other derivatives that the ETF can't legally hold. The ETF also has a lower percentage of bonds from emerging markets than the mutual fund. There's a big gap performance-wise, too—though, perhaps, not the one you'd expect: The ETF has yielded 5.5 percent since its debut, versus 2 percent for the fund. Although steering clear of derivatives seems to have helped the ETF so far, there's no guarantee that will always be the case, industry experts say. "Most people were under the impression it was the same portfolio. It's a different animal entirely," says J.D. Steinhilber, a Nashville money manager who has bought the mutual fund—but not yet the ETF—for his clients.

490 Number in Pimco Total Return ETF

The two products follow the same investment strategy, Pimco says, but since the ETF can't own derivatives, the returns most likely won't match. The lesson, say experts: While mutual fund firms may get some extra mileage out of marketing sleek ETF models of their funds, investors would still be wise to check under the hood before they buy.

Attack of the Clone

How the Pimco ETF differs from its mutual fund in some areas.

TYPE OF BONDS HELD	ETF	MUTUAL FUND
Treasurys	30%	31%
Agencies	10%	3%
Emerging markets	2%	7%
Developed countries	9%	6%

SOURCE: PIMCO

TERM OF THE MONTH
FISCAL CLIFF

It's a precipice even Thelma and Louise might think twice about going over. Analysts fear that the expiration of tax cuts, combined with automatic budget cuts agreed to in 2011, could push the U.S. into a recession next year. Congress could take action, though analysts say that's not likely to happen until after the presidential election. Worried investors should resist making wholesale changes to their strategies, however, and focus instead on small hedges, says Jim Dunigan, managing executive of investments at PNC Wealth Management. "It's better to be a little right or a little wrong," he says.

Illustration by Mick Wiggins for SmartMoney

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Diamond Mining

Stock moves are downright calm compared with the price changes of these shiny stones. Two ways to get a piece of a rock. By Anna Prior

PLAY IT SAFE

Jeweler Stocks

RISK LEVEL 25

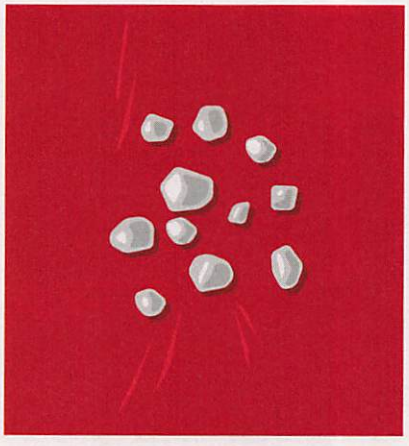
Diamond dealers and traders thought the world's consumers were finally feeling wealthier after the recession, so they started hoarding stones. In the first six months of 2011, diamond prices soared more than 30 percent, to nearly $11,000 for a 1-carat stone, according to the widely followed Rapaport-RapNet Diamond Index. But when consumers didn't flock back, diamond prices plummeted. These days, a 1-carat stone runs about $9,400, about the same price as in spring 2011. Experts still think diamonds have a bright future, due to growing demand in Asia and the Middle East. One of the safest ways for investors to jump in is through the stocks of jewelers, says Paul Swinand, an equity analyst at Morningstar. Profits at Harry Winston Diamond (HWD) more than tripled in the most recent quarter. Meanwhile, more than half of Tiffany & Co.'s (TIF) sales come from goods containing the stones, and the store is increasing sales in China.

GO FOR BROKE

Jewels

RISK LEVEL 95

Unlike gold or silver, diamonds are not easy to trade on the open market; there's an exchange-traded fund tracking diamond prices in the works, but for now, to truly speculate on diamond prices, investors essentially have to get the stones themselves. Of course, experts warn that this method is particularly risky (and that's assuming cat burglary isn't involved in acquiring the diamonds). No two diamonds are alike, and many dealers sell stones at a premium—or discount—to the prices reported by Rapaport, Swinand says. But for those willing to try, a basket of investment-grade diamonds (typically round, polished, 1- to 5-carat stones) are the most direct way to invest, says Saul Singer, a partner at Fusion Alternatives, an investment advisory firm specializing in diamonds. Plus, there's one great perk: showing off the stones. "Put them in safe keeping, and then take them out for a gala or an event," Singer says.



TOLD YOU SO...

In "Why Tech Is So Tough" (August 2011), we mentioned Quanta Services (PWR), which builds infrastructure for wind turbines and solar cells. The stock has since risen 24 percent. The firm attributes its recent profit growth to high demand for its electric power and pipeline services.

...OOPS

Last August we wrote that Citigroup's (C) stock was a bargain ("Can You Bank on Them?"). The stock is 30 percent lower than when we picked it. In March the Federal Reserve said Citi had failed a key financial stress test. The company said in a statement that it is one of the best-capitalized banks in the world.

Illustrations by Scott Roberts for SmartMoney

"Investors are better off skipping the top 50 dividend yielders."

8% Median dividend growth for S&P 500 over the past year

JACK HOUGH, a former Wall Street adviser, is the author of *Your Next Great Stock.*

INCOME INVESTING used to be easy. A retiree who plunked $1 million into 10-year Treasury notes during the past half century locked in, on average, a yearly income of around $67,000. But with interest rates at record lows, that same investment recently paid less than $15,000 a year.

Some investors are looking to stocks with high dividend yields to recoup this lost income. Standard & Poor's 500-stock index yields 2.2 percent, but its top 50 stocks, by dividend, yield an average of 5.5 percent. That's enough to turn that $1 million into $55,000 in yearly income.

Be careful about reaching too high for yield, however. Income investors are better off skipping those top 50 high-yielders and looking instead to the 50 that are just below them, whose yields average 3.8 percent.

Here are three reasons: First, high-yielders were stars last year but have been slipping of late. The S&P's top 50 yielders returned a whopping 18.5 percent in 2011, beating the 2.1 percent total return for the broad index as well as the total returns for more than 30 stock-picking strategies tracked by Bank of America Merrill Lynch. But so far this year, high-yielders have performed near the bottom of the pack.

Second, because dividend yields rise as share prices fall, the highest yields are often attached to troubled firms. Investors who give up a little yield can get a lot more safety—and they may not even have to settle for lower total returns. For example, among the top 50 S&P members by dividend yield, the median paid more than 80 percent of its earnings as dividends over the past year, compared with 53 percent in the next 50. The higher that number, the greater the risk of a dividend cut if earnings dip. Also, the top 50 yielders' dividends grew by a median rate of just 2 percent during the past year, compared with 10 percent for the 50 below them. Dividend growth can lead to higher share prices, which boost total returns. According to Bank of America, both groups have generated handsome average returns of more than 16 percent in rolling 12-month periods since 1984—but the top group has lost money more often.

The third reason: The dividend tax is capped at 15 percent; but the cap expires at the end of this year, and without action from Congress, the rate for high-income investors could more than double. That could lead to a short-term sell-off in high-yield stocks.

The stocks below come from the S&P 500's second-highest-yielding group of 50. Each firm has manageable debt and affordable dividends, and each recently boosted its payment—as good a sign as any that management sees healthy profits ahead.

Second Best? These S&P 500 firms are second tier in terms of dividend yields, but they may be safer bets for steady-income hunters.

Company (Ticker)	Industry	Share Price ($)	Market Value ($ bil.)	Price/ Earnings*	Dividend Yield (%)	Dividends/ Earnings (%)	Dividend Growth in Past Year (%)
NextEra Energy (NEE)	Utilities	65	27.0	14	3.7	45	10
ConAgra Foods (CAG)	Food processing	24	10.1	14	3.9	49	13
Hasbro (HAS)	Toys	35	4.5	12	4.2	44	20
Eaton (ETN)	Industrial machines	39	13.2	9	3.9	34	26
BlackRock (BLK)	Investment services	165	28.6	12	3.6	33	38

Data as of 6 / 4 / 12. *Based on forecast earnings for current fiscal year.

SOURCE: THOMSON REUTERS

For today's stock analysis from Jack Hough, visit smartmoney.com/stockscreen.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

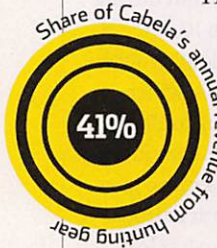
Great Outdoors

Are the firms that sell camping gear, pool parts and other outdoor equipment worth an investment? By Elizabeth O'Brien

BUY

Cabela's

(CAB, $34)



ITS STORES MIGHT seem massive—they often feature giant aquariums and a "mountain" outfitted with stuffed mountain goats—but the Sidney, Neb., retailer of fishing, camping and hunting gear recently boosted sales and profits by shrinking its stores considerably in size. Cabela's stock price has nearly quadrupled since the market lows of March 2009. Yet trading at 13 times 2012's expected profits, the stock remains modestly priced, says Sean Naughton, a senior research analyst with Piper Jaffray.

SELL

Crocs

(CROX, $16)

CROCS' SIGNATURE CLOGS seemed ubiquitous five years ago, but they fell out of favor just as the economy slowed in 2008. The stock price, which was as high as $75 in 2007, had dropped to less than $1 by the end of 2008. With inconsistent profit margins, the Niwot, Colo., firm still has a "risky profile," says Craig Sterling, head of global equity research for EVA Dimensions. Experts also say Crocs faces a host of challenges in its efforts to expand into boots. Jeff Lasher, Crocs' chief financial officer, says the company's boots and loafers already account for about 10 percent of its $1 billion in annual sales and that "strong, compelling" new products will drive sales.

HOLD

Pool Corp.

(POOL, $36)

A POOL MIGHT BE a discretionary purchase, but once you buy one, maintaining it isn't really optional. That's good news for Pool Corp., the country's largest wholesale distributor of swimming pool products. The Covington, La., firm gets 90 percent of its sales from pool maintenance, and the firm's executives project earnings per share to grow 15 to 25 percent each year for the next five years. "It's a chicken way to play the housing recovery," says St. Denis J. Villere III, comanager of the $161 million Villere Balanced fund and a shareholder. But trading at 20 times 2012's expected profits, Pool is no bargain, analysts say. Villere recommends buying the stock during the winter, when it often gets cheaper. A Pool spokesperson says seasonal fluctuations in the stock price shouldn't matter to long-term investors.

For adults with Dupuytren's contracture when a "cord" can be felt

Find doctors in your area who can treat Dupuytren's contracture without surgery. Visit XIAFLEX.com today.

Connect with local doctors who have experience treating with prescription XIAFLEX®.

IMPORTANT SAFETY INFORMATION

XIAFLEX can cause serious side effects including tendon rupture (break), ligament damage, nerve injury or other serious injury of the hand, or allergic reaction.

Call your doctor right away if you have trouble bending your injected finger after the swelling goes down, pain, tingling, numbness, or problems using your treated hand or if you get hives, swollen face, breathing trouble, or chest pain.

It's important to tell your doctor about a prior allergic reaction to XIAFLEX, or if you have a bleeding problem or use a blood thinner.

Common side effects include hand swelling, bruising, injection site reaction or bleeding, and pain.

You are encouraged to report negative side effects of prescription drugs to the FDA. Visit www.FDA.gov/medwatch or call 1-800-FDA-1088.

Please see Important Product Information on the following page.

For more information, call 1-877-XIAFLEX or visit XIAFLEX.com

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Important Product Information

XIAFLEX® (Zi a flex)
(collagenase clostridium histolyticum)

What is the most important information I should know about XIAFLEX?

XIAFLEX can cause serious side effects, including:

1. **Tendon rupture or ligament damage.** Receiving an injection of XIAFLEX may cause damage to a tendon or ligament in your hand and cause it to break or weaken. This could require surgery to fix the damaged tendon or ligament. Call your healthcare provider right away if you have trouble bending your injected finger (towards the wrist) after the swelling goes down or you have problems using your treated hand after your follow-up visit.
2. **Nerve injury or other serious injury of the hand. Call your healthcare provider right away** if you get numbness, tingling, or increased pain in your treated finger or hand after your injection or after your follow-up visit.
3. **Allergic Reactions.** Allergic reactions can happen in people who take XIAFLEX because it contains foreign proteins.

Call your healthcare provider right away if you have any of these symptoms of an allergic reaction after an injection of XIAFLEX:

- hives
- swollen face
- breathing trouble
- chest pain

What is XIAFLEX?

XIAFLEX is a prescription medicine used to treat adults with Dupuytren's contracture when a "cord" can be felt.

In people with Dupuytren's contracture, there is thickening of the skin and tissue in the palm of your hand that is not normal. Over time, this thickened tissue can form a cord in your palm. This causes one or more of your fingers to bend toward the palm, so you can not straighten them.

XIAFLEX should be injected into a cord by a healthcare provider who is skilled in injection procedures of the hand and treating people with Dupuytren's contracture. The proteins in XIAFLEX help to "break" the cord of tissue that is causing the finger to be bent.

It is not known if XIAFLEX is safe and effective in children under the age of 18.

What should I tell my healthcare provider before starting treatment with XIAFLEX?

XIAFLEX may not be right for you. Before receiving XIAFLEX, tell your healthcare provider if you:

- have had an allergic reaction to a previous XIAFLEX injection.
- have a bleeding problem.
- have any other medical conditions.
- are pregnant or plan to become pregnant. It is not known if XIAFLEX will harm your unborn baby.
- are breastfeeding. It is not known if XIAFLEX passes into your breast-milk. Talk to your healthcare provider about the best way to feed your baby if you receive XIAFLEX.

Tell your healthcare provider about all the medicines you take, including prescription and non-prescription medicines, vitamins, and herbal supplements.

Especially tell your healthcare provider if you use:

a blood thinner medicine such as aspirin, clopidogrel (PLAVIX®), prasugrel hydrochloride (EFFIENT®), or warfarin sodium (COUMADIN®). If you are told to stop taking a blood thinner before your XIAFLEX injection, your healthcare provider should tell you when to restart the blood thinner.

How will I receive XIAFLEX?

Your healthcare provider will inject XIAFLEX into the cord that is causing your finger to bend.

After an injection of XIAFLEX, your affected hand will be wrapped with a bandage. You should limit moving and using the treated finger after the injection.

Do not bend or straighten the fingers of the injected hand until your healthcare provider says it is okay. This will help prevent the medicine from leaking out of the cord.

Do not try to straighten the treated finger yourself.

Keep the injected hand elevated until bedtime.

Call your healthcare provider right away if you have:

- signs of infection after your injection, such as fever, chills, increased redness, or swelling
- numbness or tingling in the treated finger
- trouble bending the injected finger after the swelling goes down

Return to your healthcare provider's office as directed on the day after your injection. During this first follow-up visit, if you still have the cord, your healthcare provider may try to extend the treated finger to "break" the cord and try to straighten your finger.

Your healthcare provider will provide you with a splint to wear on the treated finger. Wear the splint as instructed by your healthcare provider at bedtime to keep your finger straight.

Do finger exercises each day, as instructed by your healthcare provider.

Follow your healthcare provider's instructions about when you can start doing your normal activities with the injected hand.

What are the possible side effects of XIAFLEX?

XIAFLEX can cause serious side effects. See "What is the most important information I should know about XIAFLEX?".

Common side effects with XIAFLEX include:

- swelling of the injection site or the hand
- bleeding or bruising at the injection site
- pain or tenderness of the injection site or the hand
- swelling of the lymph nodes (glands) in the elbow or underarm
- itching
- breaks in the skin
- redness or warmth of the skin
- pain in the underarm

These are not all of the possible side effects with XIAFLEX. Tell your healthcare provider about any side effect that bothers you or does not go away.

Call your doctor for medical advice about side effects. You may report side effects to the FDA at 1-800-FDA-1088.

General information about XIAFLEX

Medicines are sometimes prescribed for purposes other than those listed here. This is a summary of the most important information about XIAFLEX. If you would like more information, talk to your healthcare provider. You can ask your healthcare provider for information about XIAFLEX that is written for health professionals.

For more information visit www.XIAFLEX.com or call 1-877-663-0412.

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PLAN

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Protecting your digital assets after you're gone.

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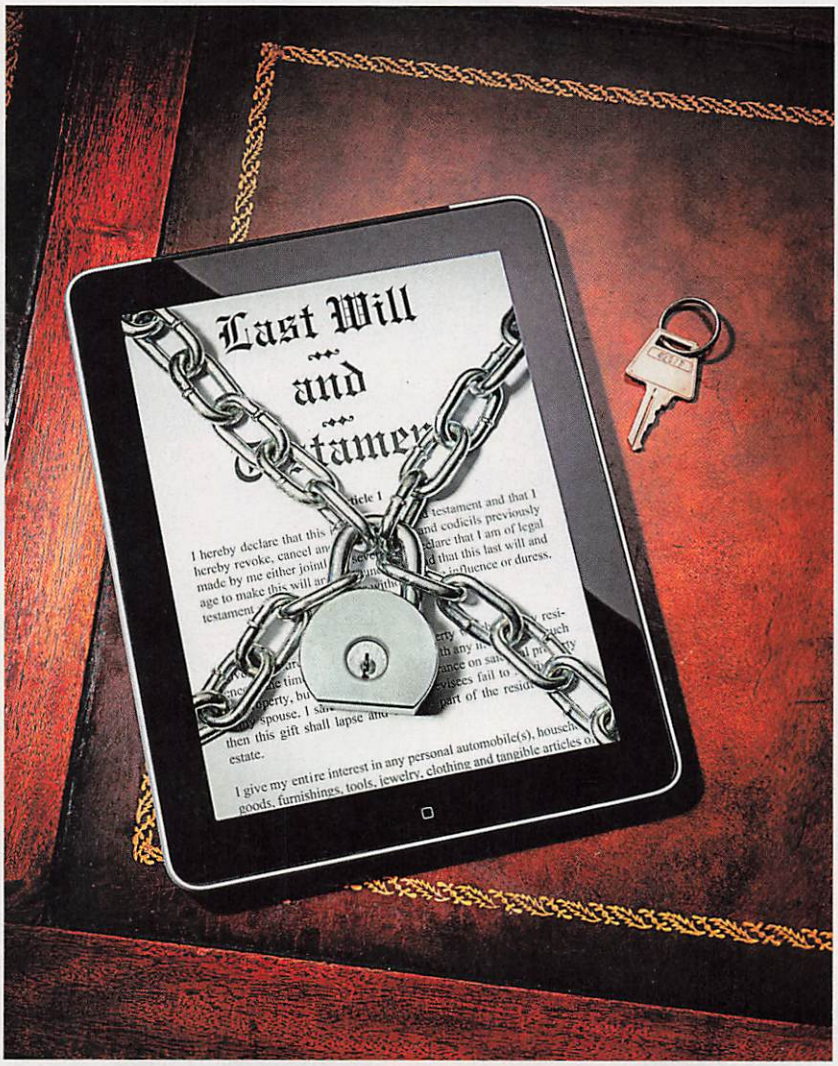
A mushrooming alternative to plastics.

Illustration by Marcos Chin for SmartMoney



Protecting Your Virtual Estate

What happens to all of your e-mail and other digital assets when you die? Financial pros say not knowing can be costly. By Tania Karas

2.9 mil.
Facebook users worldwide expected to die in 2012

WHEN MISSOURI estates and trusts lawyer Robert Kirkland was preparing a will for a client several years ago, it never occurred to him to include any provisions about electronic bank statements or e-file tax services, both of which were then relatively new. The result of that omission became clear only last year, when the client died unexpectedly—and his wife had no way to access their joint online bank accounts and the other key financial records that were stored digitally. After weeks of trying to guess her late husband's passwords, the widow finally had to call on some IT specialists to hack into his computer. Kirkland still cringes when he thinks about it: "It was a headache on top of a heartache," he says.

As more and more of our lives are put online, estate planners are grappling with how to advise clients to secure and transfer their virtual estates—the body of nontangible, digital assets people create and store on their computers and the Internet. Thirty-six percent of adults over age 45 now do their banking on the Web, according to the Pew Internet & American Life Project, and millions of people store some financial records online, which are often locked behind myriad user names and passwords. But estate planners say few, if any, of their clients consider digital assets in their wills—an oversight that can result in real-world losses to beneficiaries. And experts say the estate-planning industry itself has been slow to adopt standards for dealing with the sort of "property" that may exist only in cyberspace.

Digital assets, of course, can range from things with obvious financial value (online bank and brokerage accounts, and Web-based businesses) to less obvious but still valuable properties like domain names, blogs, Twitter accounts and even social media pages. Karin Prangley, an estate-planning lawyer in Chicago, says that merely accounting for these assets after the owner's death is often a challenge—and can be trickier if the person paid his bills and filed his tax returns online. But

PERFECT PORTFOLIO ILLUSTRATIONS BY QUICKHONEY FOR SMARTMONEY

Photo-illustration by John Kuczala for SmartMoney

without log-in information, access to those Web accounts and services may require hiring a computer-forensics expert or obtaining a court order.

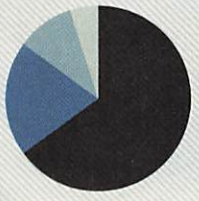
And the problem isn't limited to assets. Without proper documentation, says Kimberly Foss, founder of Empyrion Wealth Management in Roseville, Calif., executors may have no way of knowing how to cancel the cable service or stop automated bill payments. Complicating matters is that accessing the deceased's online account (even that of a spouse or parent) may run afoul of terms of service agreements—and federal antihacking laws. When Prangley's own father-in-law suffered a stroke in 2009, leaving him incapacitated, the family was left to sort through the assets of his building-supply company. Trouble was, his client records and invoices were stored digitally—and the e-mail service provider refused to help. "All that information was trapped in an e-mail account we couldn't access," she says.

While estate-planning pros say the problem is only getting bigger, just a handful of states have passed legislation related to digital-property management after death. That large legislative gap, meanwhile, is leading a growing cadre of estate planners to be digitally vigilant as never before, creating step-by-step instructions for how heirs can access and transfer virtual properties after a client's death. For starters, Foss now asks her clients to take inventory of all their digital accounts and store an updated list of passwords on a flash drive, locked in a safe. Some pros are also looking to websites like Legacylocker.com and AssetLock.net, which enable users to release account information to designated beneficiaries after their death. Taking even a few modest actions now, says New York attorney Bernard Krooks, can keep your assets from getting lost in a cybercemetery. "In a worst-case scenario, the accounts get frozen and your heirs won't have access," Krooks says. "At the end of the day, they could potentially be gone."

Perfect Portfolio

25-year-old carefree single

With time on their side, experts say, young adults benefit from keeping the bulk of their savings in stocks, which tend to outperform bonds over the long haul. For balance, the pros point to short-term bonds in the form of a fund with an average maturity of about three years. Lee Rosenberg, president of ARS Financial Services in Jericho, N.Y., says it's a good idea to hold some cash to deal with any unexpected bills, rather than max out credit cards.



- 65% U.S. stocks
- 20% Foreign stocks
- 10% Bonds
- 5% Cash

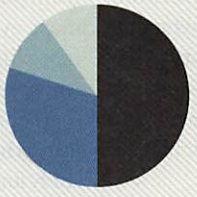
40-year-old couple with a kid headed to college

Experts say that U.S. stocks are in the bargain bin, so they recommend emphasizing them more than foreign stocks right now. "U.S. stocks have been pretty beaten up," says Jason Jenkins, president of Assetwise Investments in San Diego. With Sally heading to college, you will want to keep some savings in cash; that way, you can avoid being forced to sell holdings to pay tuition bills, should the market suddenly fall again.

- 55% U.S. stocks
- 15% Foreign stocks
- 20% Bonds
- 10% Cash

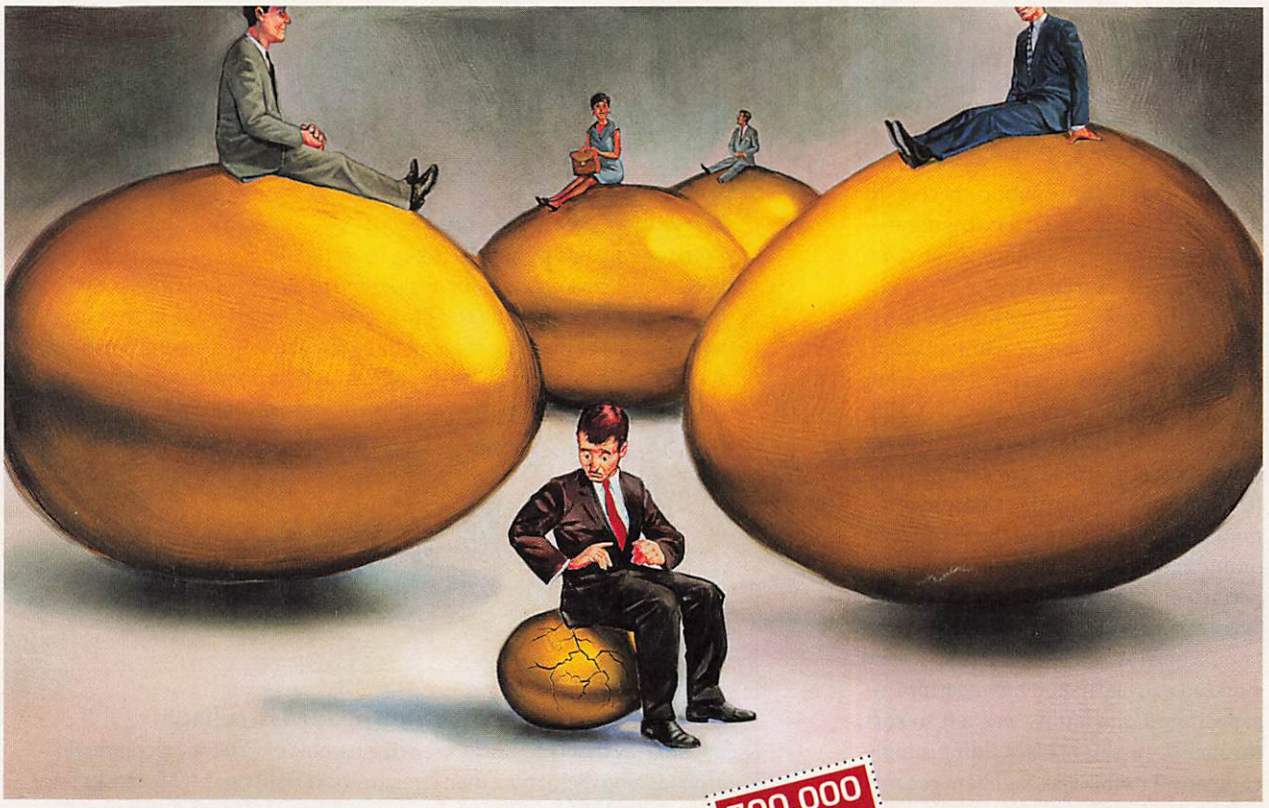
65-year-old marathon runner

You don't want to take too much risk with your portfolio. International stocks will likely continue to be under pressure, so keep most of your portfolio in U.S. stocks, says Sidney Blum, a financial planner at GreatLight Fee Only Advisors in Evanston, Ill. Investors also may want to consider bond portfolios with maturities of three years or less, in case interest rates rise.



- 50% Stocks
- 30% Bonds
- 10% Alternatives
- 10% Cash

Note that these allocations may shift as market conditions change. To see updates on our portfolios, including recommended asset mixes for other stages of life, go to smartmoney.com/perfectportfolio.



For 401(k)s, Size Matters

Higher fees? Less scrutiny from the boss? Experts say workers at smaller firms should pay extra attention to their retirement plans. By Ian Salisbury

300,000 Annual calls to the Labor Department's 401(k) hotline

WHEN ASSETS in the retirement plan at Axis Global Logistics of Minnesota, a 30-employee Minneapolis-area shipping company, hit $1 million, Vern Langer, who oversees the plan, expected fees to drop. But when he carefully tallied up the costs, he got a nasty surprise. The plan provider "was getting almost twice what it said it was," says Langer, who dumped the provider in February in favor of a cheaper one.

It's a fair bet that in the coming months, many more workers will have a similar rude awakening: New federal 401(k) disclosure rules go into effect this summer. The new Labor Department regulations will force 401(k) providers at all companies to state more clearly the gamut of fees they charge for running workplace retirement plans. But, industry insiders say, the most eye-popping cost disclosures are more likely to be found at smaller plans (those with fewer than 500 members), a segment that accounts for a quarter of all 401(k) holders today. Indeed, one recent study found that workers in plans with less than $1 million in assets paid average fees totaling $141 per $10,000 invested—more than three times the rate in larger plans.

That huge difference, pros say, doesn't come from malfeasance, typically, but rather from scale: Fortune 500 companies can pool thousands of workers' savings, splitting overhead and still sparing money for specialists to vet the plan. Mom-and-pop shops generally have neither the negotiating power to demand discounts from providers nor the expertise to spot bloated costs and other problems—especially when the in-house administrator is left to juggle scores of other tasks as well. "There's a lot of things to do to keep a company running," says Sharon Hughes, who oversees the 401(k) at Diamond McCarthy, a 70-person Texas law firm, in between duties that range from hunting for office space to doing the annual audit. For the 401(k), she gets a little help from a financial adviser and three firm lawyers. "I try to pick somebody that has numbers in their background," she says.

Still, small plans have their advantages. Workers are more likely to get personalized advice, say pros, because a single financial adviser can serve the entire office. And, of course, if the new 401(k) disclosures reveal that you're paying too much in fees, it may be easier to go straight to the boss with your complaint.

Illustration by Matt Collins for SmartMoney

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"For retirees, muni bonds are an important, and problematic, investment."

GLENN RUFFENACH is editor of *The Wall Street Journal's* Next section, a guide to retirement planning and living.

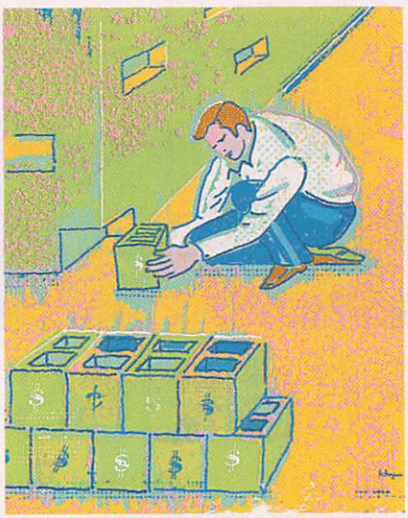
I HATE TO BE a party pooper, but...your federal taxes are likely to go up, possibly as early as January. If that's the case, you should begin taking a closer look at one of the most important—and, as of late, problematic—investments for many retirees: municipal bonds.

First, taxes. As you probably know, the Bush-era tax cuts are set to expire at year-end. Even if they're extended, tax increases have been built into health care reform. (Starting in January, taxpayers in higher brackets will see a new 3.8 percent tax on dividends, interest income and capital gains.) Even if that legislation is gutted, future efforts to pare budget deficits will likely translate into higher marginal tax rates.

What to do? One straightforward strategy is to reposition assets: Move investments taxed at higher rates into a tax-deferred account (like an IRA) and replace the holdings in taxable accounts with more tax-efficient products (like municipal bonds). Leon LaBrecque, who heads LJPR, a wealth-management firm in Troy, Mich., offers an example: Let's say you have a stock with a 3.5 percent dividend and a tax-free muni paying 3 percent. Right now, the after-tax yields are roughly equal. In 2013, though, assuming tax rates return to 2001 levels, the after-tax yield of the stock will be 1.98 percent for an upper-bracket taxpayer, compared with the 3 percent tax-free yield on the muni bond.

10.7% Return on municipal bonds in 2011

Given the gridlock in Washington and the need for revenue at all levels of government, "munis look good in most tax scenarios" going forward, LaBrecque says. (President Obama has proposed reducing tax deductions on muni bond interest for high-wage earners, but most observers say the idea would face stiff opposition from local and state governments.)



Municipal bonds, of course, have long been a favorite of retirees—a safe, predictable play. But therein lies the problem for investors seeking to buy products in the months and years ahead: Safety and predictability have given way to uncertainty and complexity. Not long ago, says Matt Fabian, managing director at Municipal Market Advisors, a typical retail investor could assemble, without much difficulty, a nice collection of insured munis rated double-A or better with after-tax yields of 5 percent or more. Today, insurance is all but nonexistent, yields are half what they were, top-quality bonds are in short supply, and stress on muni issuers is increasing. (Moody's currently has a negative credit outlook for state and local governments as a group.) When I asked how, then, to navigate these waters, Fabian answered, more serious than not: "You need a Virgil," referring to Dante's guide through hell in *The Divine Comedy*. And actually, that's a good place to start. (With Virgil—not with hell.) If munis will play a larger role in your nest egg in the future, consider these steps:

Get a guide. Asking your financial adviser to be an expert in all things muni is asking too much. This is a $3.7 trillion market with 5,000 issuers and 1.5 million individual securities. You can, of course, turn to muni bond funds. But a better approach is tailoring a portfolio of individual bonds to your specific needs. That means working with a broker or firm that focuses on munis—that "treats them as a core asset class," Fabian says. Check referrals; look for specialists; find your Virgil.

Have a plan. Ask yourself: What do I want out of a muni portfolio? Many

For more ideas on preparing for a healthy retirement, go to SmartMoney.com.

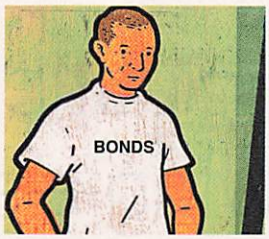
ILLUSTRATIONS (FROM LEFT) BY PETER HORJUS; DAN PAGE; COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

people skip this key step, says Stephen Scott, who manages the Southeast municipal trading desk for Raymond James–Morgan Keegan out of Atlanta. If you have a specific cash need—say, funding a grandchild's education—bonds with greater liquidity and shorter maturities may be a better fit. But if the goal is solely retirement income, then safety and longer maturities with the highest yield possible will likely move to the head of your wish list.

Hit the books. The most common mistake among muni investors? People simply don't understand what they're buying, says Hugh McGuirk, head of municipal investments at T. Rowe Price. "Someone will think they have a state of Maryland bond—when it's really a university bond in Maryland." The problem, in this case, is credit quality: Maryland's general obligation bonds, McGuirk notes, are rated triple-A, but a university bond in the state could be as low as double-B.

Two online tools are invaluable: emma.msrb.org, run by the Municipal Securities Rulemaking Board, and investinginbonds.com, created by the Securities Industry and Financial Markets Association. Both give information about muni markets and individual bond offerings, and both "have really leveled the playing field" for investors of all stripes, says Marilyn Cohen, president of Envision Capital Management in Los Angeles.

Think cash flow. Yes, munis can be a big help with taxes going forward. But these investments are equally important for cash flow. A well-designed portfolio of high-quality individual municipal bonds will deliver a secure stream of payments that you can calculate almost to the penny, says Stan Richelson, coauthor of *Bonds: The Unbeaten Path to Secure Investment Growth.* Just add up the interest coupons that the bonds will pay twice a year. "People always say, 'Bonds are too complicated,'" says Richelson, but "most investors don't take the time to understand them." Do your nest egg a big favor: Take some time.



NEGATIVE NEWS

Municipal bond segments with the highest default rates:

Community-development districts	16.6% of issues
Assisted-living facilities	4.5%
Independent-living facilities	4.2%
Nursing homes	3.3%
Telecoms	3.3%

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"Bio-plastic firms are growing—and, in one case, mushrooming."

DYAN MACHAN, a senior writer at SmartMoney, can be reached at dmachan@smartmoney.com.

IN THE 1967 movie *The Graduate*, Dustin Hoffman receives one-word career advice that conjures a bright future: "plastics." In today's remake, the word might be "mushrooms."

At least that's the remake envisioned by Green Island, N.Y., outfit Ecovative. The founders, Eben Bayer and Gavin McIntyre, are convinced that they'll be able to create mushroom-based products to take the place of most plastics, and they've already put some on the market. They join a legion of entrepreneurs committed to making the planet a greener, less toxic place. "Our goal is to eliminate as many plastics as possible," says Bayer, the chief executive officer.

Plastics are environmental migraines for a host of reasons: Oil is one of their main building blocks, many are made from known carcinogens, and most don't break down in landfills. Five years ago, Bayer and McIntyre discovered that a mushroom's mycelium, white threadlike offshoots that function like roots, could bind particles like glue and be used for insulation. In figuring out how to harness their fungus, they've seen plenty of trial and error. But Bayer sees a bright future. "We're where plastics were 50 years ago."

Ecovative is getting a foothold among companies searching for earth-friendly plastic alternatives. It has sold its spongy, beige packing materials to companies including furniture firm Steelcase, Dell and Crate & Barrel, and Bayer says this year's revenue should top $3 million. Sealed Air, maker of Bubble Wrap, has become a partner. 3M is an investor. Puma is working with them to make mushroomy flip-flops.

Ecovative isn't alone in its field. So-called bio-plastic companies, using organic ingredients like chicken feathers, algae and soy, compose less than 1 percent of the $560 billion industry, but they're growing at 20 percent a year, according to SPI, the plastics industry trade association. The group says it supports the movement: "You see a lot of creativity," says Melissa Hockstad, its vice president of science, technology and regulatory affairs.

Ecovative's founders are mechanical engineers trained at Rensselaer Polytechnic Institute. With replacing plastics as their goal, they grew mycelium under their beds for an "inventor's studio" class that required them to develop a patentable idea. After graduation, their professor, Burt Swersey, persuaded them to quit their jobs and even became their first investor, borrowing from his retirement account.

At first, the inventors tried to license their technology to the construction industry as insulation. No go. Next, they pitched it as packing material, to displace Styrofoam, a product so ecologically damning it's fun to hate. Their big break came when they won a foundation grant that allowed them to start manufacturing on their own.

Customers came. One was Dell, which is using an Ecovative product in a pilot program for shipping one of its servers. The mushroom packaging offers more cushioning than polyethylene but did require some reengineering, says Oliver Campbell, Dell's procurement director. Ecovative's products often cost 10 percent more than their nonorganic rivals. That may change if the company gets a large-scale factory of its own, but for now, Bayer acknowledges, it's a marketing obstacle: "We know it's not enough to be green."

The company's factory in upstate New York smells a little like a barn. On the floor is a bale of cotton hulls, agricultural waste that will become the

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COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

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fungi's next meal. Finding the right mushroom food has been a long-term hassle. The founders tried feeding the fungi lobster shells, dryer fuzz and cat hair, Bayer says, but all were spiked "due to grossness." The hulls get cleaned in a contraption the two engineers rigged from an old asparagus blancher and are then inoculated with mycelia. Ecovative brews the mycelium liquid in a "clean room," where petri dishes of cloned fungi are stored like pastries on baker's shelves.

But these fungi never get to "fruit," or pop a mushroom. The mycelia are escorted to a shaping mold via a chocolate-chip-cookie machine the engineers adapted, and there they do their thing. The mycelium forms a type of glue, and the packing material forms itself five days later. (It comes out a mushroomy color—a potential turn-off to clients who want their packing stuff bright white.) Then the mycelium is killed with a blast of heat—to prevent a mushroom from accidentally sprouting from the finished product.

Switching from *The Graduate* to *Alien* or *The Thing*, the founders envision products that would behave like living creatures—including self-repairing bicycle helmets, auto bumpers and roofs. The organisms would live in suspended animation, and react when stressed. A shoe, for instance, could be dampened and put into a plastic bag, setting off a reaction in which it would fix itself.

All these products are still drawing-board dreams, of course. But whichever ones come to fruition, Bayer says, they'll have one key edge. Making bio-plastics from bacteria or crops creates some kind of waste, but mycelium becomes the "plastic" and leaves no waste. "His entire body is plastic," enthuses Bayer.

NEW AGE MATERIALS

Ecovative uses agricultural waste to make its earth-friendly plastic, but other companies are using food crops and even sludge.

▶ **Eastern BioPlastics,** based in Harrisonburg, Va., blends chicken feathers with polymers to make resin. It's being used in horticulture pots, and the company is working with manufacturers to test resin for automotive parts and office furniture.

▶ **Micromidas,** a Sacramento start-up, is working on making plastic out of sewage. Founder John Bissell has venture funding to explore using microbes to turn sludge into biodegradable plastic.

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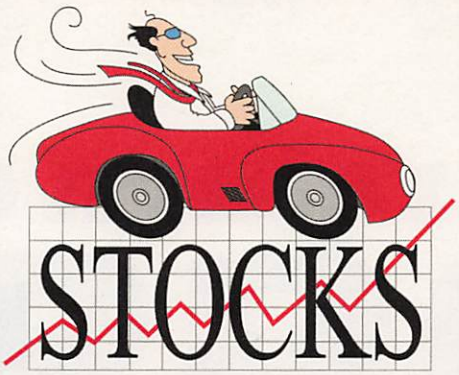

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How To Make Up To $500 In The First 59-Minutes Of Every Trading Day

BY JIM WALSH

MANNY BACKUS IS A soft-spoken chess prodigy obsessed with the stock market. Four years ago, he discovered a trading short-cut that produces up to $500 during the first hour the market opens. Stock market experts were amazed when the Los Angeles resident explained his secret to profitable stock picking even during a market crisis. Some questioned whether he gets illegal tips from an inside source. However, the facts show he developed an ingenious trading system that is...

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The reason Mr. Backus is so accurate at picking stocks poised to make money is simple. He was born and raised in Peru and groomed to become a champion chess player. The task was made easier due to his certified genius I.Q. of 157. In his early teens, he became passionate about trading stocks. By the age of 19, he actively traded his own account with real money. A few years later, Mr. Backus, started figuring out how to...

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the return of fossil fuels

Enormous new oil and gas discoveries under American soil are having a game-changing impact on the entire economy—affecting everything from what we're putting in our portfolios to what we're parking in our driveways. How to play the new energy boom.

For pharmaceutical executive Abe Abuchowski and his wife, Mary Nucci, going solar meant a little pain for what they hoped would be years of gain. The couple decided in 2011 to convert their 3,500-square-foot colonial home in Hunterdon County, N.J., to solar power, and they endured a barrage of banging hammers and droning electric drills on their roof as a crew installed the photovoltaic panels. The total price tag: a daunting $120,000. Still, by the couple's calculations, the ruckus and money would be worth it; with energy prices climbing toward the stratosphere, they'd recoup their costs in five years.

Less than a year later, Abuchowski is second-guessing the decision. Since his panels went up, New Jersey's home-energy rates have bucked a decade-long trend and started to dip, and local utilities no longer pay top dollar for the electricity from his home grid. One culprit behind the unexpected reversal, experts say: natural gas, which is driving down power prices all over the Garden State and undercutting the alternative-energy business just about everywhere. Now, Abuchowski says, the money math looks a lot different: "It could take 25 to 30 years to recover what we paid."

It used to rank up there with death and taxes—the certainty of the rising price and eventual disappearance of fossil fuels. For a generation and beyond, images of oil dependency were drummed into the American psyche—in the form of long lines at gas stations, secretive overseas oil barons and screaming headlines about $100-a-barrel crude. And our spending and investing alike have reflected our energy anxiety. Americans have bought 1.6 million hybrid cars since 2007, putting up with higher sticker prices in order to cut back on trips to the pump. Almost every community has a few homes that sport shiny solar panels. And most of us have hedged our portfolios to cope with fuel fear: ExxonMobil is one of the most widely owned stocks in America, but in 2008, shares in alternative-energy darling First Solar cost three times as much as the petroleum giant's.

BY RESHMA KAPADIA
WITH ALYSSA ABKOWITZ, IAN SALISBURY AND MISSY SULLIVAN

FOSSIL ILLUSTRATIONS BY RYAN ETTER FOR SMARTMONEY

Still-life photographs by Ann Cutting for SmartMoney

A NATURAL GAS BOOM

AMERICAN COMPANIES ARE PRODUCING MORE GAS THAN EVER, AND PRICES ARE NEAR RECORD LOWS. WHICH ENERGY GIANTS WILL TURN THE GAS GLUT INTO A PROFIT STREAM?

DOMESTIC OIL IS BACK

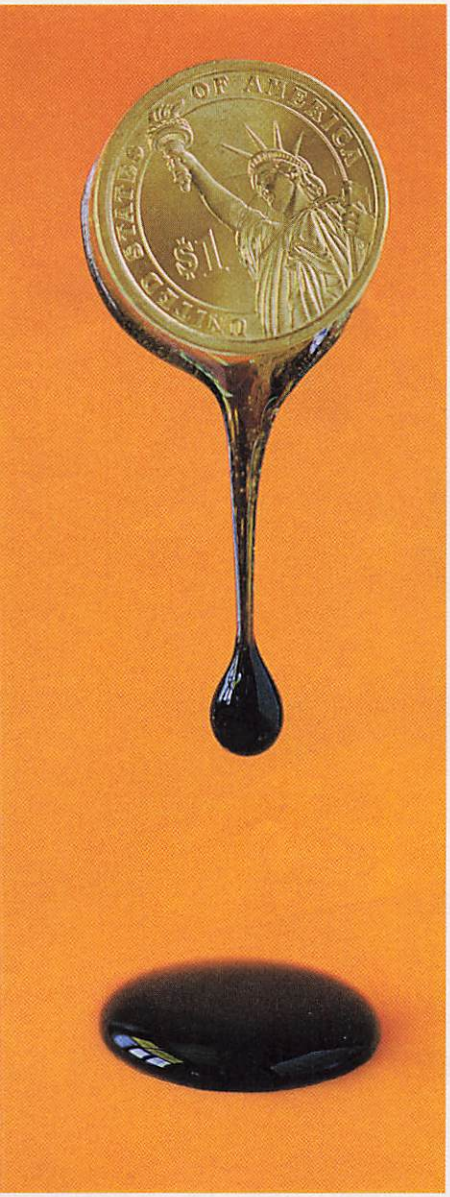
THE COUNTRY IS ALREADY GROWING LESS DEPENDENT ON FOREIGN OIL, BUT WILL THE NEW BOOM MAKE A MEANINGFUL DENT IN FUEL PRICES?

WHAT'S NEXT FOR CONSUMERS

HOMEOWNERS ARE BENEFITING FROM CHEAPER ENERGY. IS IT STILL WORTH PUTTING SOLAR PANELS ON THE ROOF—OR A HYBRID IN THE GARAGE?

So what's different now? To put it crudely, our economy has been fracked up. Fracking is the extraction technique that has enabled drillers to tap enormous new reserves of natural gas across the country—a 75-year supply, by some estimates, with the potential to change the economics of everything from the electricity that runs our iPads to the trucks that deliver them to our doors. And natural gas isn't the only historical fossil that's resurfacing; North American oil production is also bouncing back, driven by technological breakthroughs that have brought hard-to-reach sand and shale deposits into the fuel fold. "The shale revolution could transform our economy," says Sarah Emerson, president of research and forecasting firm Energy Security Analysis, who has been covering the industry for 25 years. "The potential here is phenomenal."

Those game-changing ripples are being stirred up, appropriately enough, by water—specifically, the millions of gallons that engineers pump underground as part of the fracking process. First widely implemented in the 1980s, fracking technology now enables energy companies to tap deposits that they once regarded as too costly to extract. In the past few years, the Marcellus Shale in the Northeast has emerged as what could be the U.S.'s largest natural gas field, while oil drillers have descended on North Dakota and Montana to tap the enormous Bakken Formation, which geologists estimate may hold as much as 10 billion barrels of recoverable oil. The impact on the energy industry has been immediate: In the first four months of this year, the U.S. imported only 42 percent of the oil it consumed, the lowest level in nearly two decades, and the country is producing more



oil

Equipment makers and oil drillers are profiting from big new oil finds. The next challenge: converting those discoveries into cheaper fuel.

It may sound contradictory, but investors say it's true: You can thank high oil prices for breakthroughs that might someday make prices lower. When prices are high, energy companies have the incentive (and cash) to figure out how to tap hard-to-reach reserves. The past decade proves the point. Fueled by demand from the developing world, oil prices have risen 265 percent in 10 years. The industry, in turn, put more resources into fracking and horizontal drilling—techniques that opened up huge North American finds like the Bakken and the oil sands of Alberta. Before the oil-price boom, says Brian Hicks, comanager of the $500 million U.S. Global Investors Global Resources fund, these reserves would have been unprofitable; now they're anchoring "a gold rush."

Some companies have already seen a big payoff from the new finds. Oil producer Continental Resources has the biggest stake in the Bakken field, leasing nearly a million acres. Jeff Hume, Continental's vice chairman of strategic growth initiatives, says the company is on track to triple its production from 2009 levels by the end of 2013. And he says a slew of other businesses are benefiting from its shale plays—from makers of memory chips used in pumping equipment to the restaurant and hotel operators flocking to serve oil-field workers. Indeed, some investors see bigger opportunities in those smaller hangers-on. Donald Coxe, whose Chicago-based investing firm specializes in commodities, favors companies that make specialized equipment for extracting oil from the Alberta sand fields. Such processes present technical challenges and, as environmentalists note, major pollution problems. But Coxe says the payoff is 50 to 75 years' worth of oil reserves: "Your grandchildren can get dividends."

Of course, many consumers are painfully aware that they haven't seen dividends yet, at least not in the form of lower gasoline prices. That's partly a result of high global demand—the fuel burned by a Buick owner in Beijing drives up prices for a minivan-driving mom in Memphis. But analysts say the U.S. also has a distribution problem, in the form of a pipeline shortage, which could mean an opportunity for master limited partnerships, or MLPs, that specialize in operating such pipelines. MLPs have soared in popularity and price, as investors have flocked to their high yields. But Hicks thinks these MLPs will continue their strong run, and his fund is committing about 8 percent of its assets to MLPs, up from zilch five years ago.

Handicapping energy stocks could be a first step on the road to something bigger. If U.S. oil production does eventually help cut oil prices, it could boost any company for which fuel is a major expense—think major shipping firms, or the nation's airlines, which burn 47 million gallons of jet fuel a day. The price of oil will still be determined by global forces, says Emerson, the energy analyst, but the U.S. "will influence it in ways it hasn't in decades."

natural gas than ever. In fact, says Michael Avery, a portfolio manager at the $27 billion Ivy Asset Strategy fund, "the U.S. is the only energy-producing country with significant, sustainable production growth."

As revolutionary as these new fuel sources may be, their impact won't hit home immediately for most people. Most notably, rising oil production is a long way from making a big dent in prices at the gas pump. Still, the new energy boom is already creating upheaval in a host of other sectors, producing some unexpected new winners and losers. Cheap natural gas, for example, has been a bonanza for companies that burn a boatload of it, like utilities and chemical giants. And nowhere has the impact of cheaper fuel been more stark than in the alternative-energy industry, which has had the green rug pulled out from under it. Solar-, wind- and even some nuclear-power providers all saw their share prices soar when $8-a-gallon gas seemed inevitable; now they're struggling to compete.

Amid this turmoil, the savviest investors are quietly shifting gears, trying to anticipate which companies could benefit from more domestic gas and oil, and which could be hurt the most. Those calls aren't as slam-dunk obvious as they may appear from a distance, of course, and even for Main Street types who wouldn't know a refinery from a Ferris wheel, the implications are big. Is it too soon, or too late, to add more energy stocks to a retirement portfolio? Is it still worth paying a premium for a car that sips at the gas pump—or skips it altogether? The only certainty, economists and analysts say, is that these decisions will remain tricky as the energy dice continue to roll.

AMERICA IS IMPORTING LESS OIL...

SHARE OF U.S. PETROLEUM CONSUMPTION COMING FROM IMPORTS

2008	2012
57 percent	42 percent

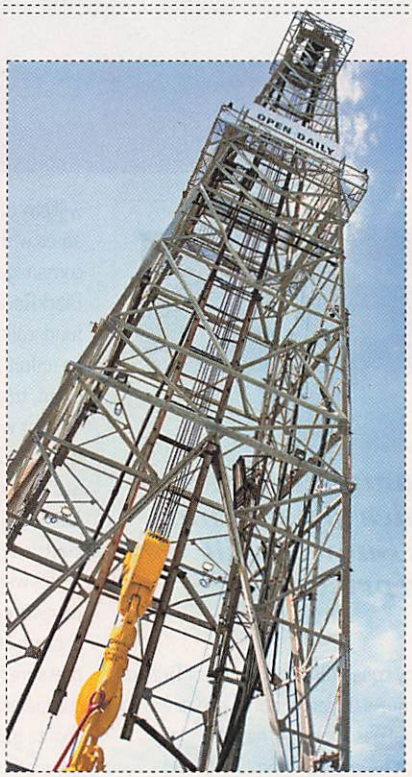
SOURCE: ENERGY INFORMATION ADMINISTRATION

...AND DRILLING MORE.

U.S. OIL PRODUCTION (BARRELS PER DAY)

2008	2012
5.0 million	6.3 million

PHOTOGRAPHS BY STEFAN HOFECKER/ALAMY (SHIP); RICHARD NOWITZ/GETTY IMAGES (RIG); MEDIA BAKERY (PUMP)[



NUMBER OF OIL RIGS IN OPERATION IN THE U.S.

2008	2012
391	1,329

SOURCE: ENERGY INFORMATION ADMINISTRATION

OIL'S NEW WINNERS

INDUSTRIES

The **oil producers** sitting on new reserves are the natural winners of the domestic boom. But investors can think of **energy-services companies** as the producers' enablers: Companies that make specialized drilling components and seismic technology, for example, are key to extracting the energy bounty.

HOW TO PLAY THEM

Pioneer Natural Resources (PXD, $95) owns sizable stakes in shale fields, including more than 300,000 acres in Texas's Eagle Ford. Its stock is more expensive than many of its peers, but investors say its reserves make it attractive. Tim Parker, manager of the $5 billion T. Rowe Price New Era fund, likes **Exxon-Mobil** (XOM, $81), which has been ramping up its production of natural gas as well as oil. To get a bit of everything in the energy patch, exchange-traded-fund investors can buy **Energy Select Sector SPDR** (XLE), which owns producers like Exxon; refining and transportation firms such as Phillips 66; and even specialized service firms like National Oilwell Varco, which makes parts for drilling rigs.

natural gas

With gas cheap, manufacturers and power companies are shifting the way they work. But who will keep winning when prices rise?

Back in the late 1970s, energy consultant and regulator Branko Terzic appeared before Congress to deliver some bad news. The U.S. was facing a natural gas shortage, he told lawmakers—one so bad that he was advising clients and regulators to write off their natural gas plants as worthless. The U.S. was shutting off gaslights on little old ladies' porches and even dousing the flame in the John F. Kennedy Memorial to make sure there was enough gas left to heat homes, Terzic recalls. "It was one absurdity after another."

Today, Terzic—now a chatty 65-year-old—heads the energy center at accounting and consulting giant Deloitte. These days, he's helping clients deal with a different issue: How to play a U.S. gas-production boom. And his job isn't about handing out congratulatory cigars. All those recent domestic strikes have helped create a short-term gas glut, and U.S. prices have dropped to a stunning 86 percent below their highs from the middle of the last decade; this spring gas from many shale fields sold for less than it cost to take it out of the ground. Those falling prices have hurt the stocks of companies with big gas stakes—including ExxonMobil, whose shares trade at 15 to 20 percent below prerecession peaks.

Exxon's executives have said they're confident that natural gas bets will pay off, and many investors agree with them. Dan Rice, comanager of the $950 million BlackRock Energy & Resources fund, calls today's ultralow prices an unforeseeable "black swan" event, triggered by one of the mildest winters on record, which led consumers to use much less gas than expected for heating. But many analysts think that the electricity that runs laptops and DVRs will help push natural gas prices steadily upward. Driven by concern about pollution (and pressure from regulators), utility companies have switched from coal to gas to run their power-generating plants, and most new plants under construction will rely on gas. Atlanta-based Southern Co., the largest electricity generator in the country, now gets 47 percent of its electricity from gas, up from 16 percent five years ago, and it's planning more gas-conversion projects.

Plentiful gas is having an even bigger impact on manufacturers that compete with rivals outside the Americas. Natural gas in the U.S. currently costs as little as one-quarter of what it does in Europe and Asia, and that's been a boon to U.S. chemical companies that use gas as a component in their products. Dow Chemical decided to invest more than $4 billion in a range of new projects in the Gulf Coast that are set to be completed between now and 2018; the plants make ethylene and propylene, which appear in all kinds of plastics and other products. Until the recent gas boom, an investment of that magnitude in the States wasn't even on the radar, says Jim Fitterling, a Dow executive vice president, but now it could be profitable for many years: "People here still pinch themselves every day to see if it really is real."

A few firms are looking toward the next frontier—sending gas abroad. The country exports only about 6 percent of its natural gas, in part because shipping gas is technically challenging (it requires either a pipeline or a plant that can liquefy gas for shipment). Right now, only a few such plants are even being contemplated; but if the spread between prices here and abroad remains wide, more U.S. companies might gamble on this move, says Paul Christopher, chief international strategist at Wells Fargo Advisors.

RECENT DISCOVERIES HAVE BOOSTED U.S. GAS RESERVES, AND PRODUCTION HAS GONE UP TOO.

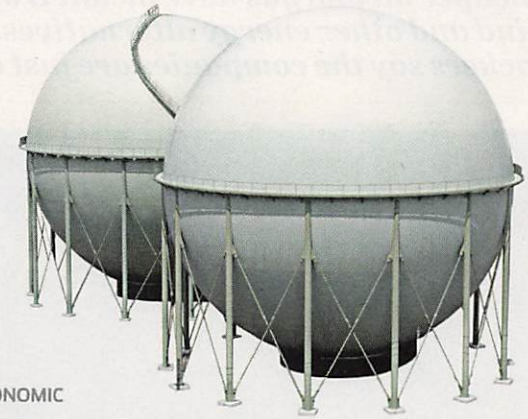
U.S. PROVED NATURAL GAS RESERVES (IN TRILLION CUBIC FEET)

1940	1993	2009
85.0	162.4	272.5

U.S. PRODUCTION (PER MONTH, IN TRILLION CUBIC FEET)

1986	2012
1.45	2.53

SOURCE: ENERGY INFORMATION ADMINISTRATION



LOCATION, LOCATION

NATURAL GAS ISN'T EASY TO TRANSPORT LONG DISTANCES, SO REGIONS THAT ARE CLOSE TO THE SUPPLIES TEND TO SEE A BIGGER ECONOMIC IMPACT. GAS RESERVES BY STATE (IN TRILLION CUBIC FEET)

Wyoming	Colorado	Texas	Oklahoma	Louisiana
35.3	23.1	80.4	22.8	20.7

SOURCE: ENERGY INFORMATION ADMINISTRATION

PHOTOGRAPHS BY GETTY IMAGES (THIS PAGE)

NATURAL GAS'S NEW WINNERS

INDUSTRIES

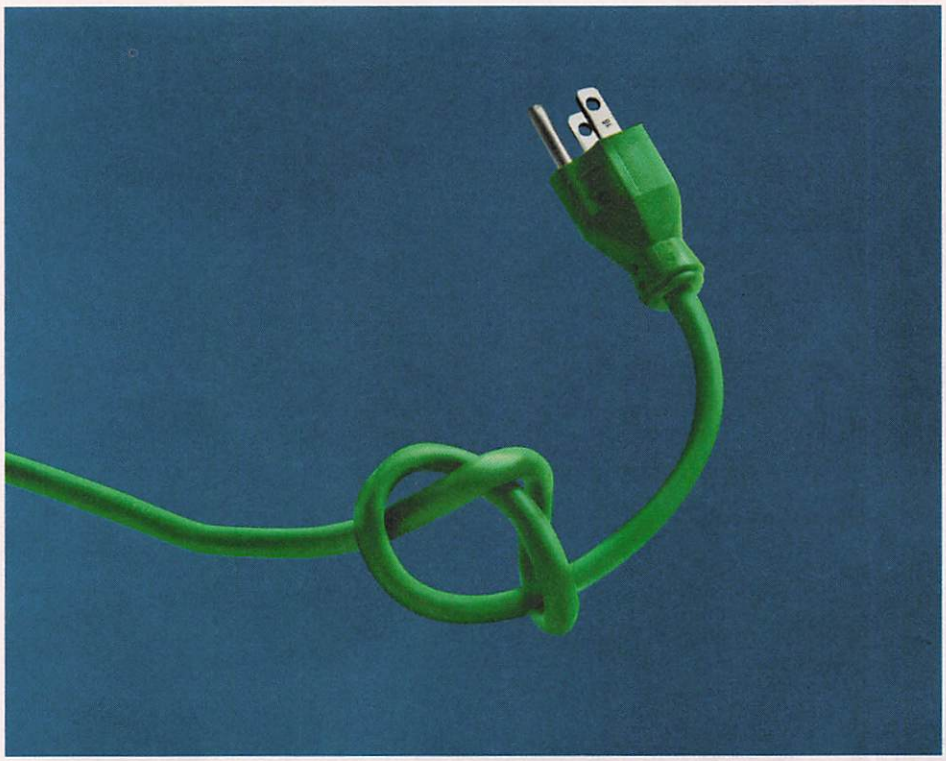
Analysts credit low gas prices for fueling a renaissance in **chemical manufacturing**, as companies invest billions in plants that convert natural gas into chemicals needed for plastics. And money managers say **pipeline firms** that transport and distribute gas are big beneficiaries of the boom.

HOW TO PLAY THEM

Cheap stateside gas gives **Dow Chemical** (DOW, $32), the largest U.S. chemical maker, an edge over global rivals. Compared with other energy-related stocks, chemical companies are still relatively inexpensive: Dow, for example, trades at about 13 times earnings. The natural gas storage and transportation firm **El Paso Pipeline Partners** (EPB, $33) has benefited from the gas glut without getting whacked by low gas prices. El Paso's 7 percent yield has drawn a bevy of income-seeking investors, almost doubling the stock's price from mid-2009 levels. But ClearBridge Advisors energy analyst Chris Eades says its price and its dividend are likely to keep growing. Some investors with a penchant for buying low are eyeing **Fidelity Select Natural Gas fund** (FSNGX), which is down almost 50 percent from its 2008 high—but whose portfolio is full of battered natural gas companies that could rebound if gas prices rise again.

green energy

Cheaper oil and gas have meant trouble for solar, wind and other energy alternatives. But their backers say the companies are just down, not out.



Ann Minnium, a financial planner in Scotch Plains, N.J., runs the all-female Athena Investment Club. Each month, the 12 members come together to vote on which stocks to buy and which ones to drop. Minnium says the group's returns have averaged 14 percent a year, but they'd be doing even better if it weren't for one stock: First Solar. The club bought the Tempe, Ariz., solar-equipment maker in November 2009 for $117 a share; now a victim of falling demand and competition from companies that make cheaper gear, it trades at $13. Minnium calls the stock "our biggest loser—and that's saying a lot, considering we own a Greek shipping company."

Despite the ecological arguments in their favor, solar and wind power have almost always been more expensive than fossil fuels, and recent trends have widened that gap. What's more, government budget problems in Europe and the U.S. have begun to erode or threaten tax breaks and subsidies that encouraged consumers to go solar or put windmills in their backyards. Making matters worse for solar companies, analysts say, is a simmering tariff war between the U.S. and China that could drive up the price of solar panels. All these headwinds are chilling investors: According to Lipper, assets held in alternative-energy mutual funds have fallen by two-thirds since 2009.

In response, green money managers are scrambling to redefine their approach. In one bleak six-month stretch in 2011, David Kurzman, manager of the Leuthold Global Clean Technology fund, sweated through a 40 percent loss; for the year, he saw more than half of his $26 million portfolio disappear. Today, he has less than 20 percent of his assets in alternative-energy companies, down from 50 percent before the slump. His holdings now include firms like American Water Works—a utility that supplies water to, yes, fracking enterprises. Kurzman says that when fracking is performed in an environmentally conscious way, natural gas is a cleaner source of energy.

Other green investors are buying shares in companies that follow green practices, even if they aren't green-centric. Brian Salerno, manager of the Huntington Strategy Shares EcoLogical ETF, says he's done well with NextEra Energy, a Florida company that uses more renewable sources than any other big energy distributor, and BorgWarner, which makes auto parts that improve fuel efficiency. Salerno says he likes these businesses because they're "not just waiting around for that next subsidy check."

Indeed, the best of the green-energy companies are also avoiding that waiting game. Edward Guinness, comanager of the $18 million Guinness Atkinson Alternative Energy fund, says renewable-energy manufacturers are becoming more efficient and producing their equipment more cheaply, so they can better compete with fossil fuels. Guinness likes Silicon Valley–based SunPower, which brought in $2.3 billion in revenue in 2011, even as its stock fell to an all-time low. As for First Solar, the company says it plans to move its operations away from smaller projects and focus on building major power installations for utilities. And the Athena Investment Club has decided it will hang on to the stock. After all, Minnium says, fossil fuels like natural gas are finite resources, and "they can't stay cheap forever."

WE'RE GETTING MORE OF OUR ENERGY FROM RENEWABLE SOURCES LIKE SOLAR...

U.S. ELECTRICITY GENERATED BY RENEWABLE ENERGY

2008

361

trillion kilowatt hours

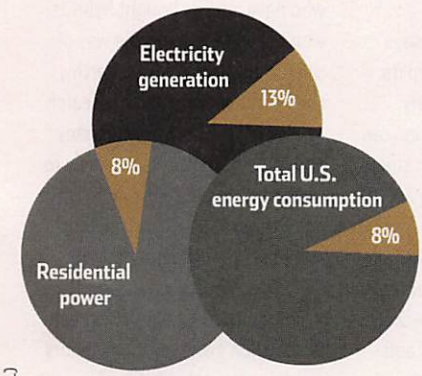
2011

520

trillion kilowatt hours

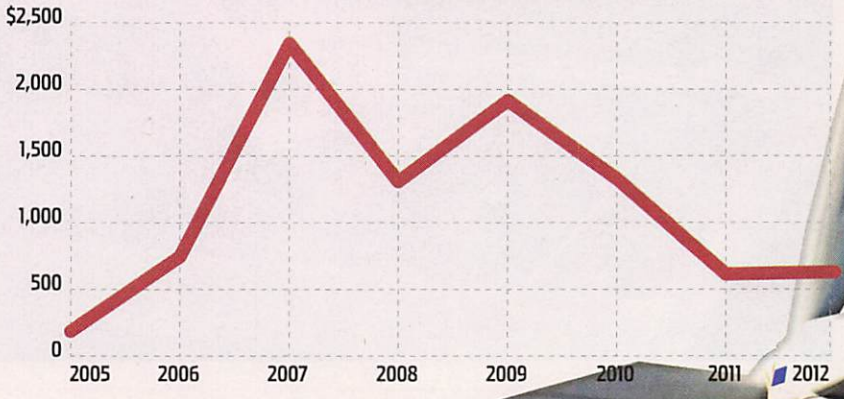
...BUT THAT ENERGY IS STILL A SMALL SHARE OF OUR OVERALL CONSUMPTION.

RENEWABLE ENERGY AS A SHARE OF:



SOURCE: ENERGY INFORMATION ADMINISTRATION

TOTAL ASSETS HELD IN GREEN-ENERGY MUTUAL FUNDS (IN MILLIONS)



PRICES OF COMPONENTS HAVE PLUMMETED

DECLINE SINCE 2007

Wind turbines

40-50

percent

Solar panels

80

percent

SOURCE: GUINNESS ATKINSON ALTERNATIVE ENERGY FUND

...BUT INVESTORS ARE LOSING FAITH IN THE SECTOR

CHANGE SINCE JAN. 1, 2008

Shares of First Solar (FSLR)

-95

percent

S&P Global Clean Energy Index

-88

percent

SOURCE: LIPPER

PHOTOGRAPHS BY MASTERFILE (PANEL); MEDIA BAKERY (WINDMILL)

GREEN'S NEW WINNERS

INDUSTRIES

Headwinds are fierce for **solar energy:** Investing pros cite low natural gas prices, the evaporation of government subsidies and a U.S.–China trade war as problems holding back the stocks of solar-equipment makers. But Citigroup renewable-energy analyst Timothy Arcuri recently upgraded the sector on signs that the survivors of the current pain will emerge as stronger competitors. Other money managers are buying companies that are benefiting from green practices without betting the farm on producing or selling alternative energy—for example, **water- and waste-management utilities.**

HOW TO PLAY THEM

Fund manager Edward Guinness says China's **Suntech Power Holdings** (STP, $2) is poised to emerge profitably from the downturn. The water and waste utility **American Water Works** (AWK, $34) is supplying substantial amounts of water to natural gas fracking companies; its sales in 2011 totaled $2.7 billion. **The PowerShares WilderHill Progressive Energy ETF** (PUW) shows the benefits of defining *green* broadly: With holdings ranging from gas firm Southwestern Energy to industrial firms like Johnson Controls (which makes a key component of hybrid engines), the ETF is one of the best performers in its category.

homes & cars

Green products like solar panels and hybrid cars have caught on with only a small minority. Could cheap oil turn green consumer tech into an endangered species?

As enormous and influential as the energy industry is, it's still a consumer-driven business—with hundreds of companies competing to see who can convince customers that their fuel is the cheapest and most convenient. In one sense, economists say, the battles of the energy revolution are being fought house by house and car by car. On the home front, natural gas has been looking like a better heating option to many owners. Last winter, according to government estimates, the average resident in a gas-heated home spent 31 percent less for heat than his electric-heat neighbors, and a whopping 72 percent less than those who use heating oil. While exact numbers of home conversions aren't disclosed, gas executives say the numbers are up, especially in the oil-dependent Northeast.

Still, the economics of converting a home to gas heat aren't necessarily a slam dunk. A conversion typically costs between $5,000 and $10,000; while that's less expensive than the $23,000 spent on the average single-family-home solar installation, the savings are also proportionally smaller. (After all, a solar-powered-home owner can theoretically reduce her heating bills to zero.) Based on last winter's prices, an oil-to-gas conversion might pay for itself in as little as three years, but an electricity-to-gas switch might take as many as 11 years. And the natural gas industry's own trade group says it's unlikely that gas will keep its current price edge indefinitely. Meanwhile, a solar installation can look attractive even today in states where gas hasn't had as big an impact on electricity rates, including California and Nevada.

There's also a bit of an energy muddle in the garage. Some 3.3 million new hybrids, diesels and electric cars have been registered since 2007. A closer look, however, shows an industry that's uncertain about the best future "alternative." With manufacturers racing to meet stricter government fuel-efficiency standards, some gas-only cars now get 40 miles per gallon or better. "Forty has become the new 30," says David Whiston, the senior automotive equity analyst at Morningstar. So car buyers are thinking twice about paying, on average, $6,000 more per car for hybrid technology.

But no other green alternative is exactly muscling hybrids aside. Electric cars have been supported by generous tax breaks, and Mike Omotoso, an analyst at research firm LMC Automotive, points out that electric-car-battery prices have been dropping by 8 to 10 percent a year. But he adds that it'll be at least a decade before the U.S. has an infrastructure to support plug-in cars—right now, the country has more than 10,000 electric charging stations, or one for every 16 gas stations. Natural gas faces a similar problem.

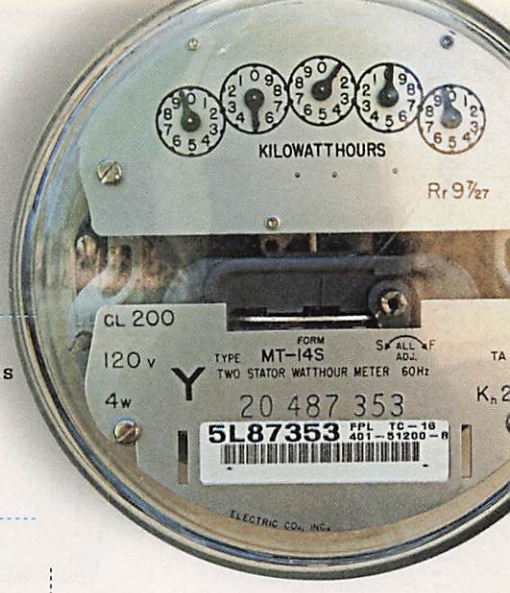
If it's any consolation, drivers who have already bought hybrids won't see them going the way of the rumble seat. Tom McCarthy, chief engineer for engine research at Ford Motor, says his company and other automakers are likely to keep investing in all the alternative "power trains"—hybrid, electric and the like—because "it's too early to be betting on just one." And for now, the industry's green efforts won't offer stock investors much to cheer about. Sized up against the industry's $450 billion in annual revenue, Whiston says, sales of hybrids and electric cars "aren't even a rounding error."

NATURAL GAS HAS A COST EDGE OVER OTHER RESIDENTIAL FUELS

AVERAGE COST OF HEATING A HOME (WINTER 2010–11)

Natural gas	Heating oil	Electricity
$724	$2,298	$957

SOURCE: ENERGY INFORMATION ADMINISTRATION



WHILE HOMES HAVE BECOME MORE ENERGY-EFFICIENT, GADGETS AND APPLIANCES HAVE COMMANDED A GREATER SHARE OF AMERICANS' ELECTRIC BILLS.

PERCENTAGE OF U.S. HOUSEHOLDS WITH:

3 or more televisions
44 percent

2 or more computers
35 percent

4 or more rechargeable devices
39 percent

CARMAKERS THAT COMMIT TO BUILDING FUEL-EFFICIENT VEHICLES IN THE U.S. CAN GET SOME HELP FROM THE GOVERNMENT.

SUBSIDIES PAID TO:

Ford Motor
$5.9 billion
(to retool factories and create "green" manufacturing jobs)

Nissan
$1.4 billion
(to set up a battery factory and upgrade an electric-car plant)

Tesla Motors
$465 million
(to produce plug-in vehicles and electric power train components)

PHOTOGRAPHS BY MIKE KEMP/GETTY IMAGES (HOUSE); MEDIA BAKERY (CAR, METER)

A LACK OF PLACES TO "FILL 'ER UP" HELPS EXPLAIN WHY ALTERNATIVE-FUEL CARS HAVEN'T TAKEN OFF.

NUMBER OF FUELING STATIONS IN THE U.S. FOR:

Ethanol-fueled cars
2,499

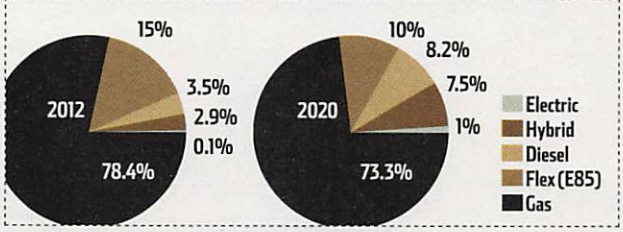
Electric cars
10,286

Natural gas vehicles
1,014

Gasoline-powered cars
160,000

SOURCE: DEPARTMENT OF ENERGY

HYBRIDS AND DIESEL CARS ARE LIKELY TO GROW MORE POPULAR, BUT THEIR SHARE OF THE OVERALL MARKET IS PROJECTED TO REMAIN SMALL.



SOURCE: LMC AUTOMOTIVE

HOMES & CARS' NEW WINNERS

INDUSTRIES

In some parts of the country, low natural gas prices have prompted consumers to switch their home heating systems from electricity or oil to gas, boosting **gas distributors**. In the automotive sector, some analysts expect government miles-per-gallon standards to benefit **engine manufacturers** who make fuel-efficient models.

HOW TO PLAY THEM

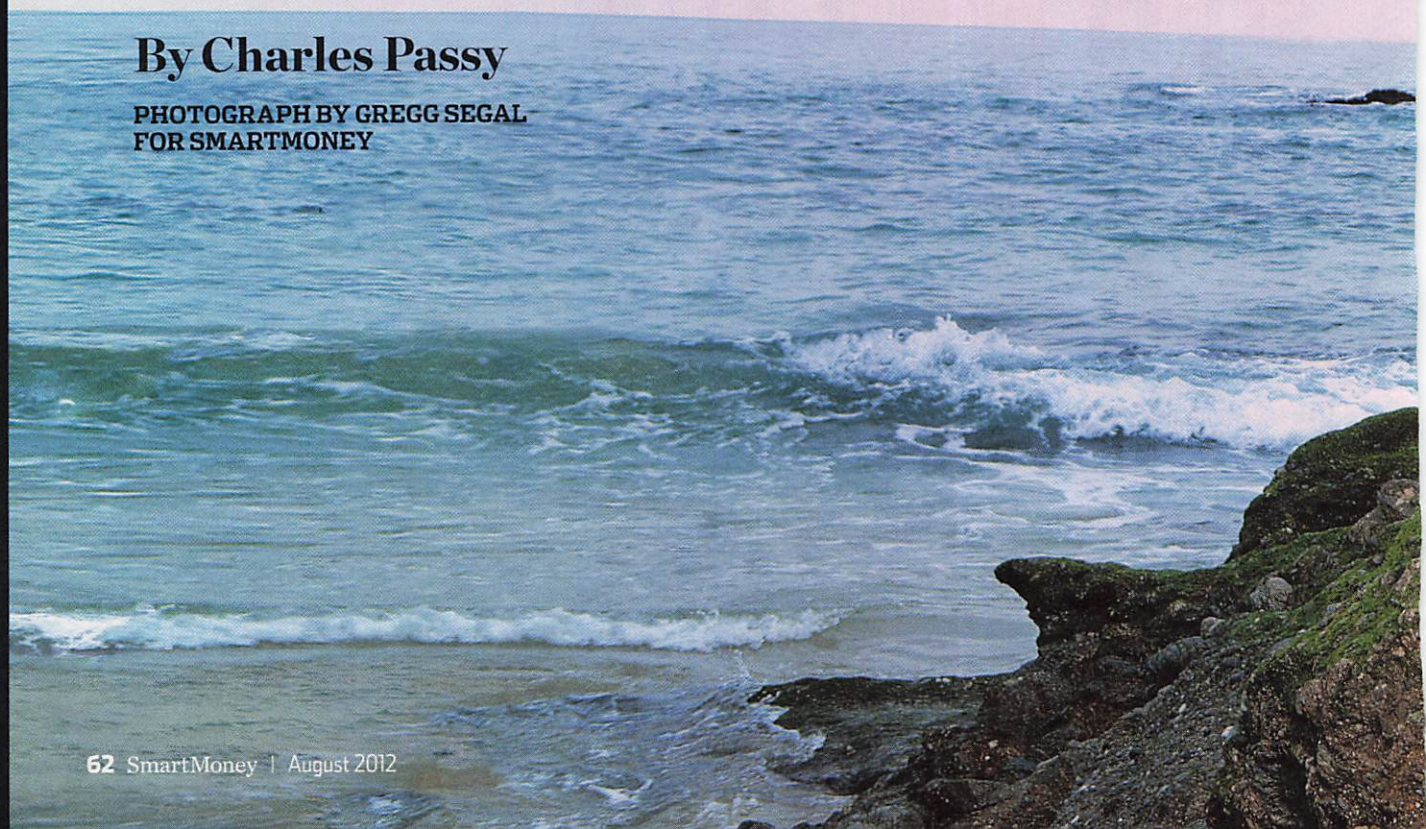
John Bartlett, vice president of Reaves Asset Management, a firm that specializes in utility and energy investing, owns Folsom, N.J.–based **South Jersey Industries** (SJI, $50). The firm has been gaining residential conversion customers, but it's also eyeing the transportation industry. South Jersey opened its first compressed natural gas filling station in March and may build up to seven more in the next three years. One company that's benefiting from the auto-mileage revolution, according to Morningstar analyst David Whiston: **Johnson Controls** (JCI, $29). The conglomerate's battery division, Power Solutions, is the leading player in stop-start technology, a fuel-saving system that shuts down a car's engine when the car is stopped in traffic or at a light.

MOVE MERRILL

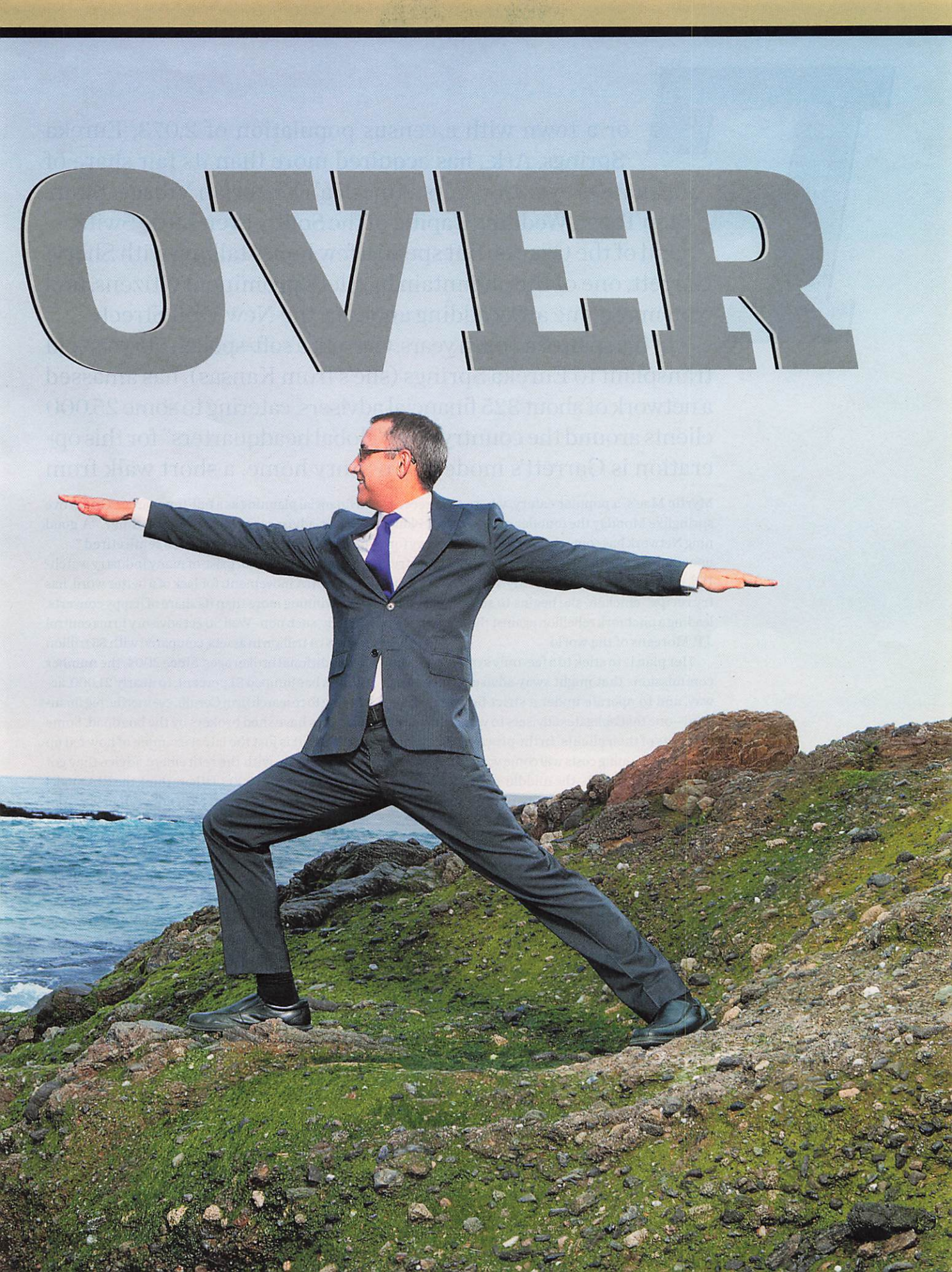
Far away from Wall Street, a revolution is brewing in the financial-advice industry. Should you trust the rebels with your money?

By Charles Passy

PHOTOGRAPH BY GREGG SEGAL FOR SMARTMONEY



OVER



For a town with a census population of 2,073, Eureka Springs, Ark., has acquired more than its fair share of nicknames over the years: America's Victorian Village, Stair-Step Town, Wedding Capital of the South, even Little Switzerland of the Ozarks. But spend a few hours talking with Sheryl Garrett, one of this mountain hamlet's prominent citizens, and you may come away adding another: the New Wall Street.

In the span of a dozen years, Garrett, a soft-spoken 50-year-old transplant to Eureka Springs (she's from Kansas), has amassed a network of about 325 financial advisers, catering to some 25,000 clients around the country. The "global headquarters" for this operation is Garrett's modest two-story home, a short walk from Myrtie Mae's, a popular eatery, where on a recent springlike Monday the founder of the Garrett Planning Network has come to talk about her strategy for upending the $14 trillion financial-services industry. Indeed, between lusty bites of Myrtie's famed "country recipe" chicken, she begins to sound as if she's leading a pitchfork rebellion against the Merrills and J.P. Morgans of the world.

Her plan is to stick to a fee-only system, with no commissions that might sway advisers the wrong way, and to operate under a strict fiduciary standard—one that obligates advisers to work in the best interests of their clients. In the process, she claims, financial-planning costs will come way, way down for "the 83 percenters"—the middle-class Main Street investors who, Garrett says, have been shunned by the century-old broker-dealers. And while her mission is not yet finished, one thing is eminently clear by the time she finishes lunch: Garrett doesn't lack the confidence to pull it off. "I'd like to be the H&R Block of financial advice," she says.

But if this is the future of portfolio planning for America, it's going to come as a surprise to anyone accustomed to the old pin-striped-suit model, with brokers at brand-name Wall Street houses reciting their firm's "strategic outlook" and touting the company's line of stocks and funds. Unlike traditional brokerage houses, Garrett's network doesn't instruct its far-flung advisory firms—known in the industry as registered investment advisers, or RIAs—on what investments to pick for clients. It doesn't have a squad of researchers selecting stocks and studying economic trends. Nor does it demand that "franchisees" commit to having a key industry credential (the certified financial planner accreditation) until five years after they join the network—or even commit to financial planning as a full-time career. One in five Garrett advisers, in fact, is a part-timer. "A good number," explains Garrett, "are semiretired."

And yet, to the surprise of many industry watchers, the RIA movement, for lack of a better word, has been winning more than its share of happy converts. Already, such non–Wall Street advisory firms control some $1.4 trillion in assets, compared with $5 trillion for traditional brokerages. Since 2004, the number of RIAs has jumped 31 percent, to nearly 21,000, according to research firm Cerulli, even as the big financial firms have shed brokers by the boatload. Some say the shift is just the latest example of how fed up Americans are with the retirement advice they got before the crash of 2008. Others think the RIA model is just, well, more consumer-friendly. Either way, Aloisis Pirker, an industry analyst with Boston research firm Aite Group, thinks the old guard better wake up: "They need to take the competition seriously."

So who are these scrappy outsiders—and why do their playbooks and rules differ so much from those of big Wall Street firms? The answers, perhaps no surprise, depend on whom you ask. The brokerage houses insist these newer outfits aren't the game-changers they claim to be. "Any RIA who argues that their way of doing business is best for each and every investor is simply blowing smoke," scoffs James Wiggins, a managing director for Morgan Stanley Smith Barney. The upstarts, though, say all that smoke is coming from a genuine investor brushfire. "You see this mass exodus" from the old-school firms, says Garrett, "because of one reason: trust." Many people, she says, no longer feel comfortable leaving their money to "these black-box entities." We caught up with her and two other outside-the-box players in what is becoming a rather high-stakes game.

Photograph by Gregg Segal for SmartMoney

FAIR WARNING TO ANYONE WHO finds himself on the opposite end of a sales pitch from Joe Duran: He isn't likely to let up. When we meet Duran, the chief executive of United Capital, a prominent RIA outfit based in Newport Beach, Calif., he's in full-throttle PowerPoint mode—explaining why the fellow sitting across from him needs to join Duran's own revolution in the financial-advice realm. The 44-year-old Duran, who exudes a kind of casual suavity befitting his British colonial accent, a byproduct of his days growing up in Zimbabwe, has little interest in a pitchfork rebellion. His is more of an oyster fork. Duran's sights are set on wooing "mass affluent" advice seekers (those with investible assets between $500,000 and $5 million) away from Wall Street wire houses—and part of his strategy for getting there is to acquire, shall we say, a bit of scale. Since 2005, Duran has built United Capital into a national brand, with a brick-and-mortar presence in 26 cities and $6 billion under management; but he's nowhere near done, he says. United Capital has already rolled up 41 smaller advisory firms and has plans to acquire another 75 in the next three years.

And that's why James Pierik, the owner of a small financial firm in San Diego, is facing Joe Duran's unrelenting PowerPoint attack.

Slide by slide, Duran tells Pierik why his three-employee outfit, which manages $220 million spread over 1,000-plus accounts, doesn't have the staffing to adequately service its current clients, much less grow the ranks. "The more important you are to the business," says Duran, "the less valuable the business is." *Now, if Pierik would just sell his sleepy little firm to....* About an hour later, Pierik looks shell-shocked.

Duran, it turns out, has a history of empire building: Before joining United Capital, he helmed an advisory firm called Centurion Capital Group, which grew its assets from $100 million to $2 billion in less than a decade. (GE Financial Assurance Holdings purchased it in 2001 for what Duran will only call a nine-figure sum.) For this go-round, though, he insists his aim is not just to get big but also to create a model for financial advice that goes far beyond minding a client's investment portfolio. United Capital casts itself as a kind of überplanner, offering assistance on everything from estate planning to insurance coverage. (It also often manages its clients' money—Duran has a

JOE DURAN SAYS HIS "HONEST-CONVERSATION CARDS" GET EVEN THE MOST STOIC CLIENTS TO FIND THEIR FINANCIAL "PLACE OF HAPPINESS."

$6.1 bil.
ASSETS UNDER MANAGEMENT AT UNITED CAPITAL

33
BRANCH OFFICES, IN 26 CITIES

$865,000
AVERAGE SIZE OF A CLIENT ACCOUNT

FINANCIAL PLANNING "SHOULD BE A DISCUSSION THAT TAKES ABOUT EIGHT MINUTES," SAYS KEN FISHER. THE REST IS "MUMBO JUMBO."

five-person investment committee, which oversees seven core portfolio strategies.) For all this holistic hand-holding, the company charges, on average, a flat annual fee of 1.8 percent of assets (including product costs), or about $9,000 a year for a $500,000 portfolio.

Despite the Manhattan-level fees, Duran's approach is surprisingly California in feel—deliberately touchy-feely, if not an outright New Age cliché. (Duran, an Ashtanga yoga acolyte, has been known to do a headstand for six minutes straight.) United Capital advisers are trained to engage new clients in what Duran dubs Honest Conversations on seemingly nonfinancial topics. ("You're planning a child's birthday party. What's your top priority?") The aim, he says, is to get at the root of his client's financial goals and concerns—and the plus for advisers, Duran acknowledges, is that the conversations are billable. The responses, he says, tend to be more informative than those to boilerplate questions such as "When would you like to retire?" But even touchy-feely can devolve into formulaic shtick, and some financial pros say Duran's heart-to-hearts are no more probing—or useful—than the standard financial assessment that advisers have been using for years. Duran responds that his approach lets advisers go deeper into an investor's psyche—or, as he puts it, their "place of happiness" and "place of fear"—and that leads them to a more appropriate choice of investments.

And not surprisingly, as United Capital expands, it's also attracting a whole other line of criticism from within the industry. Some question whether the rapid pace of United Capital's growth—the firm's client base has more than doubled in the past two years—is in the best interest of its customers. With $31 million in funding from outside investors, the pressure to show shareholders a return on investment is substantial, experts say—and Duran doesn't rule out the possibility that the firm may go public or sell itself in the coming years. Some contend that could leave clients suddenly in the hands of caretaker advisers they don't know. Duran, for his part, says his company "will always be completely in line with our clients' interests." But even fans like James Pierik say they worry a bit about how big and fast United Capital is growing. Duran's PowerPoint muscle notwithstanding, Pierik ultimately nixed the sale of his small advisory firm. "If I knew Joe was going to be there long-term," he says, "it would have been a no-brainer."

$43 bil.
ASSETS UNDER MANAGEMENT AT FISHER INVESTMENTS

0
BRANCH OFFICES; ADVISERS COUNSEL BY E-MAIL AND PHONE

$1 mil.
AVERAGE SIZE OF A CLIENT ACCOUNT

AS HUGE AS JOE DURAN'S ASPIRATIONS seem to be, market maven Ken Fisher has already amassed an operation that manages some seven times the assets of United Capital. With 26,000 U.S. clients and with satellite operations as far away as Germany, Fisher Investments is by some measures the largest RIA in the country—but don't let its size make you think there's anything conventional about the model. The 61-year-old investing guru says he's not there to walk his clients through a mortgage application or to help them pick an insurance policy. He's there merely to plot their portfolio. In fact, he doesn't even place much value in meeting with investors face-to-face. The vast majority of the firm's clients communicate with their investment counselor by phone a few times a year; the only in-person contact they typically have with a company representative comes at market-focused seminars and other events held around the country.

If this mostly go-it-alone model sounds a bit quirky, it's pretty much a reflection of Fisher, a self-made billionaire who invariably flies coach ("I sleep really well in planes no matter where I am," he says), lets his cats have free rein of his corporate headquarters, and seems to have few interests beyond investing (he's written eight books on the subject) and enjoying the ancient redwoods surrounding his Woodside, Calif., home. (A redwood tree "doesn't die when it is cut down," Fisher points out, knowingly. It's the sort of thing someone says to be inspirational—but it sounds a bit scary when he says it.)

Despite the fact that he practically came into the industry as a matter of birthright—his late father, Philip Fisher, is a Wall Street legend who helped give rise to the concept of growth investing—he's always been something of an outsider. He's also faced plenty of jeers from investing professionals who say he is too equity-centric—particularly in a postcrash, volatile world. Others say his view of financial planning as a mere adjunct to stock picking is also misguided. And that may be one of the more surprising twists in the RIA revolution, experts say: For what makes Fisher's evident success in gathering assets—and grabbing market share from traditional Wall Street firms—so remarkable, say some industry pros, is that he's a lot more like an old-school broker than an adviser. (Fisher says he adheres to the same fiduciary

Photograph by Robyn Twomey for SmartMoney

325
ADVISERS IN THE GARRETT PLANNING NETWORK

25,000
CLIENTS THE NETWORK NOW SERVES

$180 to $240
HOURLY RATE TO SPEAK WITH AN ADVISER

Photograph by Dero Sanford for SmartMoney

standard required of all RIAs and has a similar cost structure—he charges a flat annual fee, typically between 1 and 1.25 percent of a client's total assets.)

The biggest controversy surrounding Fisher, however, concerns his prospecting approach—his strategy of building his client base through junk mail (a description he, too, uses) and other blanket marketing. Critics have said his sales tactics are overly aggressive, including to potential customers who may not fully understand what they're buying. Last year, a California arbitrator ruled Fisher's firm may be liable for at least $376,000 after determining that it "breached its fiduciary duty" to an investor who claimed she was placed too heavily in stocks, given her financial situation. (The client and her attorney declined to comment.) Fisher says his marketing practices are appropriate, but he declined to talk specifically about the case, other than to say it is his first arbitration loss in seven years, a respectable track record given the company's size, he contends. Other former clients, however, say they, too, have been disappointed. Rand Hoch, an attorney in West Palm Beach, Fla., says he went with Fisher because "he advertised he had a good record of going to cash before the markets tanked." But when they did just that in 2008, Hoch says, his portfolio nonetheless plummeted 37 percent.

Fisher brushes off the criticism, saying clients have a variety of portfolio options and pointing to his many correct calls over the years—he did, for example, warn of the tech bubble in March 2000, just a month before the sector went into a downward spiral. What really makes him bristle, however, is what he calls the mumbo jumbo of other RIA models—the ones, he says, in which advisers profess expertise in areas they don't know and sell clients on strategies or products they don't need. Fisher believes most financial planning ultimately comes down to seeking the right investment solutions, based on a few questions: "How much money do you have? What is the primary purpose for it?" Says Fisher, "It should be a discussion that takes about eight minutes."

BACK IN EUREKA SPRINGS, SHERYL Garrett agrees with Ken Fisher about one thing: The financial-advisory industry is on the wrong track. But Garrett says the mistake is that advisers have been so focused on the mass affluent they've all but ignored the mass market. Too many RIAs are built around a fee-based asset-management model for clients who are able to invest $500,000 or more, she says: Main Street investors, says Garrett, need basic advice on saving for a child's college fund or making sure the family's insurance covers what it should—same goes for portfolio management. "Regular people need direction on investments," she says, and "they can't all afford or justify paying for a Ken Fisher."

For hourly fees that average about $200, the advisers affiliated with Garrett are hoping to offer it to them. Unlike both United Capital and Fisher Investments, the Garrett Planning Network doesn't actually have any individual clients; its affiliate firms do. Each of these RIA franchises (Garrett calls them members) pays the network an initial fee of $10,100, then an annual membership fee of $1,200. In return, they get a slew of informational materials, management tools, software and—of course—referrals, many of which come in by way of Garrett's website. Though a few of the planners provide asset-management services on a percentage-fee basis, all are required to offer hourly-rate planning advice, which means they might meet with clients as little as once a year—or once a lifetime. Such arrangements, say boosters, make the cost of a little help no more expensive than the tab for a weekend hotel stay.

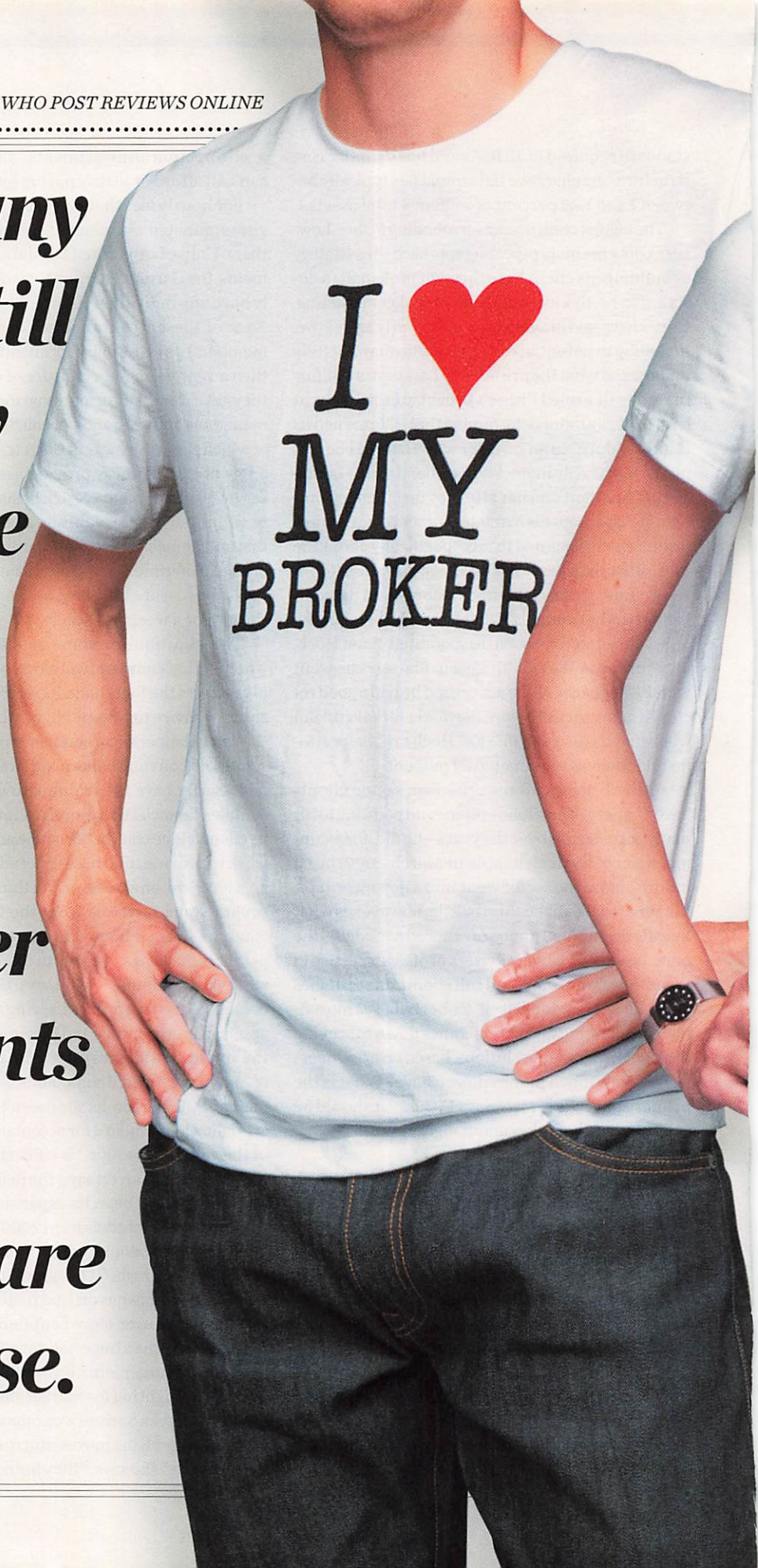
The question for some skeptics, naturally, is whether that comparatively low cost for advice simply reflects the fact that clients are getting a lower grade of advice too. Some charge that while many of Garrett's planners may be adept at offering common-sense solutions and boilerplate strategies, they don't necessarily have the training to delve into more-complex financial situations. And at least one would-be client felt he couldn't trust the advisers in the network to provide solid base-level advice. Jory Olson, an electrical engineer in Portland, Ore., says he sought some referrals from the Garrett network when he needed help with his 401(k). One of the planners that was suggested to him "just didn't know what she was doing," Olson says. Garrett is quick to defend her vetting process, saying she verifies every applicant's credentials and licenses, and checks that the applicant's industry disciplinary history is free of "any client-related complaints, litigation or settlements." Still, she admits she doesn't have a minimum accreditation standard for acceptance. "A good deal" of the vetting, she says, "is subjective."

In any case, Garrett says, the real proof of her network's merit has been its expansion. Starting with barely a handful of advisers in 2000, her professional alliance grew by double-digit percentages annually until the 2008 crash. (It has grown more slowly since then.) As she polishes off that plate of fried chicken, Garrett seems ever more confident that her firm is poised to become a huge nationwide chain—the RIA as fast-food burger joint, if you will. And as for those other firms fighting for market share, the Planning Queen of Eureka Springs welcomes the competition. "When Burger King moves in across the street from McDonald's," she says, "they both do better."

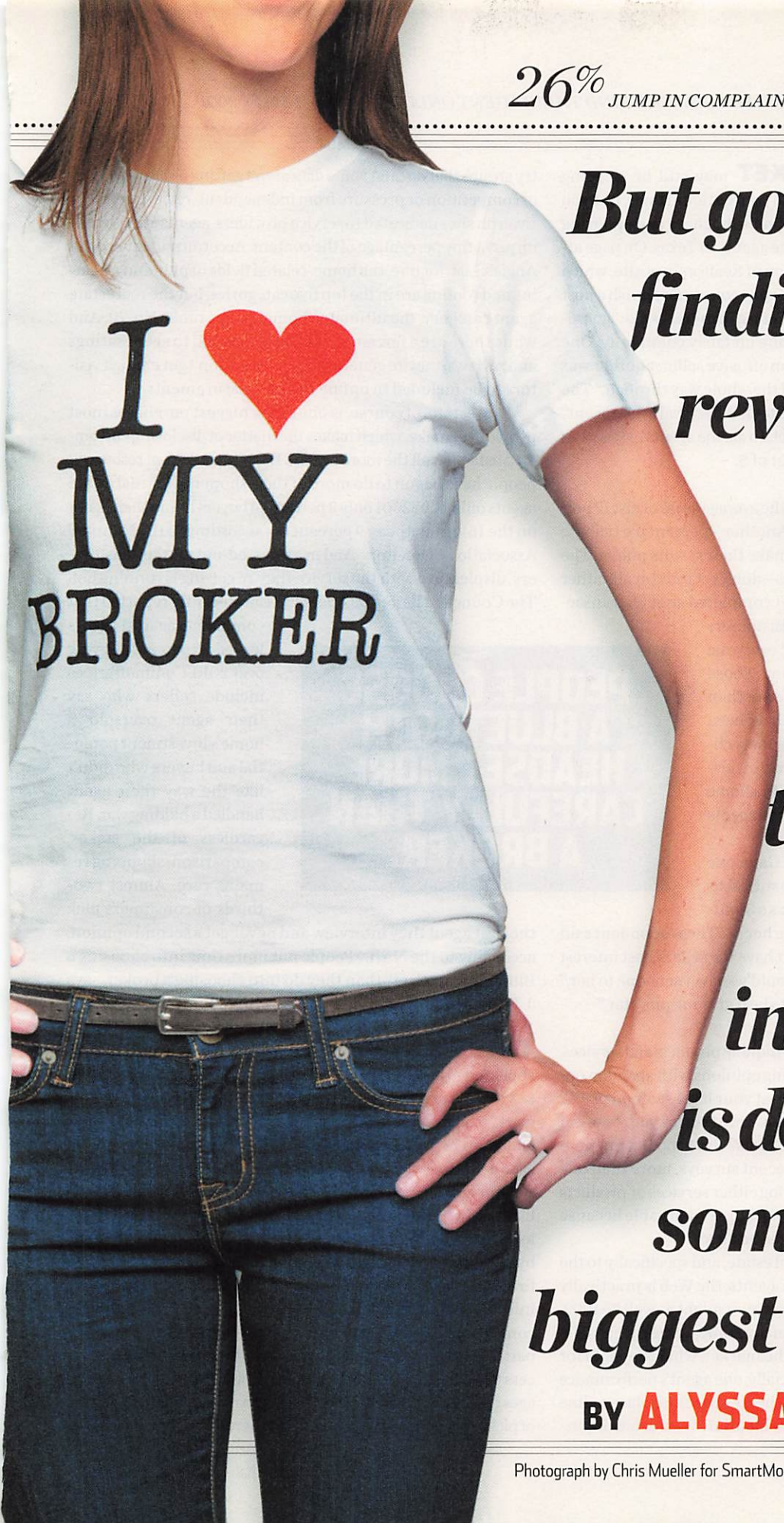
LEADING THE CHARGE FROM ARKANSAS, SHERYL GARRETT AIMS TO BRING ADVICE TO "THE 83 PERCENT" OF AMERICANS WALL STREET IGNORES.

1 in 4 SHARE OF ADULTS WHO POST REVIEWS ONLINE

With many people still unhappy about the current housing market, consumer complaints against brokers are on the rise.



26% JUMP IN COMPLAINTS AGAINST AGENTS IN 2011



But good luck finding bad reviews of agents online. How the real estate industry is dodging some of its biggest critics.

BY ALYSSA ABKOWITZ

Photograph by Chris Mueller for SmartMoney

9% PERCENTAGE OF HOMEBUYERS WHO FIND THEIR AGENT ONLINE, UP FROM 3% IN 2001

THE HOUSING MARKET may still be slogging through one of its most dicey and contentious times, but you would never know it from the tributes that have been pouring forth from the clients of real estate agents in Texas. On page after page of the Houston Association of Realtors' website, which publishes ratings of local agents, happy consumers lavish a host of breathless praises on their brokers, with phrases like "guardian angel" and "true gem" popping up fairly commonly. One agent is deemed a "godsend" by an effusive seller; another was "like a big sister holding my hand the whole way through." The Bayou City is even said to be home to the "best real estate agent" ever—several dozen of them, in fact. In all, the agents in Houston earn an average rating of 4.94 out of 5.

Well, sort of.

In reality, that 4.94 represents the average score of just 12 percent of the association's agents. Another 7 percent participate in the rating program but don't make their results public. The rest—some 17,000 real estate pros—don't get rated at all, either by choice or because they haven't completed enough transactions. The group surveys only customers who have closed deals, leaving out everyone who, satisfied or not, walked away. Those qualifications help explain why fewer than 0.3 percent of the Houston agents have been awarded a low one-star rating by their clients—a figure that seems to defy reality, given all the things that can go wrong in a home deal. (The association says low-rated agents often opt out of the program.)

None of this is lost on Patricia Gant, one of the lowest-scoring agents (who still earns a respectable 4.3 out of 5). She was a 5-out-of-5 gal until a recent survey gave her a 1. The respondent said Gant was unresponsive and didn't have the seller's best interest at heart, which Gant denies. "I would've never sent one to her," she says, "if I'd had any idea that she'd give me one star."

PEOPLE CHOOSE A BLUETOOTH HEADSET MORE CAREFULLY THAN A BROKER.

WHEN IT COMES TO critiquing products and services, American consumers are spreading opinions with abandon online. Don't like the lobster bisque at your local seafood place? Air your displeasure on Urbanspoon. Love the way your new leaf blower chases away the neighbor's cats? Rave about it on Amazon.com. Indeed, according to recent surveys, more than one in four adults participates in scoring either services or products on some kind of rating site—all the more remarkable because such forums didn't even exist a decade ago.

But when shoppers turn to real estate, and specifically to the nation's army of nearly 2 million agents, the Web is practically a blank page; in many ways, critics say, it might as well be 1992. If consumers want to know how many homes an agent has sold, how long those homes were on the market, what they sold for versus the asking price and, especially, one agent's performance compared with those of his or her peers, there's no place online to dig up reliable answers. And the handful of real estate industry groups that do offer some data aren't getting much in the way of competition or pressure from independent-review websites. Even on sites dedicated to service providers, agent ratings make up just a tiny percentage of the content. According to review site Angie's List, for one, the home-related fields of plumbing, heating and roofing are in the top five categories, but the real estate agent category, the ultimate "home" topic, ranks No. 72. And while there are a few sites specifically geared to agent ratings and reviews, they're generally tiny—most don't get enough visitors to be included in online traffic measurements.

Real estate, of course, is one of the biggest purchases most people ever make, which makes the matter of disclosing customer satisfaction all the more urgent. Despite the lack of resources, people have begun to do more of their shopping for real estate agents online. In 2001 only 3 percent of buyers found their agent on the Internet; today 9 percent do, according to the National Association of Realtors. And in a stressed-out market, customers' displeasure with the service they're getting is running hot. The Council of Better Business Bureaus recently reported that complaints against agents leaped 26 percent last year over 2010. Common gripes include sellers who say their agent oversold a home's investment potential and buyers who didn't like the way their agent handled a bidding war. Regardless of the stakes, comparison-shopping remains rare: Almost two-thirds of consumers pick the first agent they interview and never get a second opinion, according to the NAR. "People put more time into choosing a Bluetooth headset" than they do into choosing a broker, says J. Philip Faranda, a broker in Briarcliff Manor, N.Y.

THERE WAS A TIME in the mid-1990s when the NAR appeared to be getting hip to the Internet. It invested a reported $13 million in a database called the Realtors Information Network, which was intended to have thousands of listings. But it ended up being a financial flop, after failing to catch on with agents. The network was revamped into what eventually became Realtor.com, which today is mostly a site for promoting home listings. In the meantime, the industry has remained generally leery about online information sharing. Indeed, it took a lawsuit by the Justice Department, settled in 2008, to get traditional firms and the new guys on the block, online brokerages, to share information. (The Justice Department alleged that the lack of competition could lead to higher prices for consumers.) For its part, the NAR says the suit "had nothing to do with consumer access to online information," adding that while the group encourages customers to do research, "we try to remain neutral in terms of picking one Realtor over another." There's no doubt consumers

Photograph by Jonathan Sprague for SmartMoney

JESSICA KO WISHES SHE'D DONE MORE HOMEWORK ON HER AGENT.
THE SAME BROKERAGE WAS ALSO REPRESENTING THE SELLER.

Brokers Without Boundaries

Department of Complaints

Most home values may not be rising, but complaints about real estate agents are on the upswing. Here's a look at how the number of grievances against several service industries changed from 2010 to 2011.

ATTORNEYS	RESTAURANTS	REAL ESTATE AGENTS	SPECIALIST PHYSICIANS	PLUMBERS	BANKS
▲32%	▲29%	▲26%	▲22%	▲6%	▼29%

The Realtor Grading Curve

In the world of online real estate ratings, agents often get more generous grades on industry-run sites. Below, a look at scores in the Houston market.

*Share of Realtor reviews that are mediocre to poor**

YELP

18.5%

ANGIE'S LIST

5.9%

HAR.COM (run by the Houston Association of Realtors)

1.4%

*Three stars or fewer (out of five) on HAR.com and Yelp; grades of C, D or F on Angie's List.

Decoding a Listing Sheet

A property's listing sheet includes data about square footage, taxes and school districts—as well as info that consumers don't get to see.

Agent-only remarks

Buyers can see public remarks, but there's also a place for agents to write comments that are only for other agents' eyes, including everything from selling bonuses to flaws in the home.

Dimensions

Many agents get square-footage measurements from county records; however, those can be wrong. Consumer advocates advise buyers to ask whether their agents have measured each room themselves.

Days on market

This is the length of time a property has been up for sale in its current listing—a key stat for buyers. But critics point out that agents can artificially shrink this number by taking a property off the market and then relisting it.

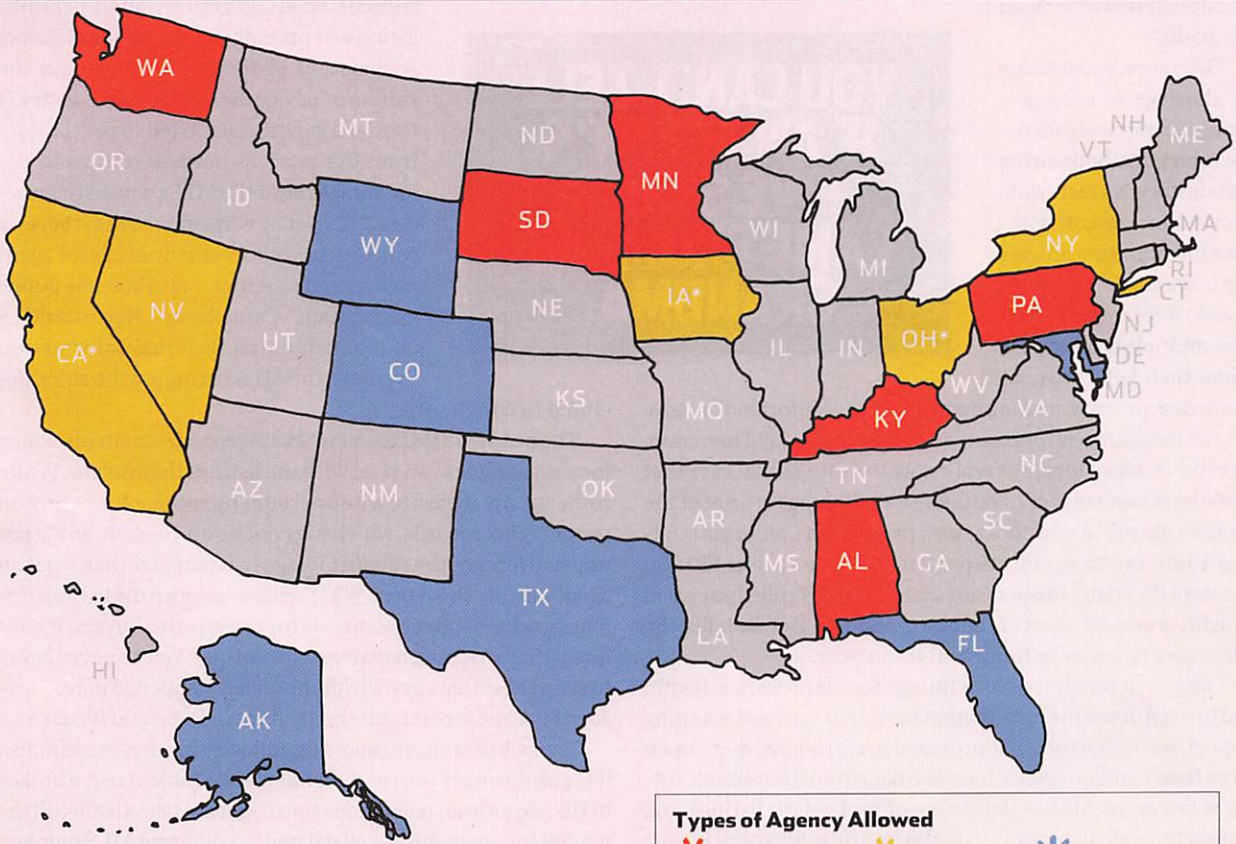
Illustrations by Julia Rothman for SmartMoney

A Realtor Report Card

The Houston Association of Realtors is one of the few professional groups that uses consumer ratings on its site. But only about 19 percent of its members participate in the program.

Overall rating
Only buyers and sellers who complete a deal can submit ratings, so scores tend to be high. Less than 0.3 percent of reviews give an agent the lowest score.

Consumer comment
Like the scores, these can seem sunny. A sample: "Harry should be cloned."



Types of Agency Allowed

- Dual, designated and transactional
- Dual and/or designated
- Designated and/or transactional

*Ohio and Iowa have no provision governing transactional deals; California regulates them on a case-by-case basis.

The State of Regulations

While most people assume that their real estate agent is on their side—and only their side—critics say that's not always the case. Many states allow "dual agency," where the same agent represents buyer and seller, or "designated agency," where different agents from the same firm represent both sides. And some offer a potential compromise: so-called transactional agency, where the agent is a facilitator and represents neither side.

SOURCES: COUNCIL OF BETTER BUSINESS BUREAUS; HAR.COM; STATE REAL ESTATE COMMISSIONS

can learn much more about homes online than they could five years ago, but most of those resources tell them relatively little about any agent's strengths, weaknesses or track record.

Jessica Ko and husband James Lue's home-buying experience reflects the frustration consumers can feel with so little to go on. Spotting a $1.4 million Craftsman home in Belmont, Calif., that struck her fancy, the user-interface designer immediately checked out the listing agent online. That broker had all favorable ratings on Yelp, Ko discovered, but she couldn't find anything else. Ko contacted the agent, who told Ko that her firm represented the seller but that she could help the couple negotiate the deal. Yet when Ko asked about lowering her bid after the appraisal revealed smaller overall square footage, the agent discouraged it, Ko says, and she ended up paying full price. She has since learned that cases of so-called designated agency—where a brokerage represents both buyer and seller—often end up with higher sale prices. (The brokerage says the arrangement was clearly explained to the clients, to avoid "any inherent conflict of interest.") Ko now says her biggest regret is that she didn't do enough homework on the agent.

YOU CAN'T TELL IF AN AGENT'S FIVE STARS CAME FROM HIS GRANDMA.

To be sure, agents have no shortage of reasons—some even rational—for being reluctant about airing their history. No real estate transaction goes off without a hitch, and the process can leave consumers frustrated. Buyers and sellers with multiple transactions under their belts are relatively rare, pros say, making many reviews uninformed or naive (it's not the agent who processes your loan, guys). Jay Thompson, director of social media at real estate website Zillow, says that while he doesn't object to ratings, "a lot of things are out of the agents' control." And a pilot review program in California is hitting a different snag: Only 19 percent of the more than 150,000 agents in the state's Realtors association have enrolled, says Don Faught, president-elect of the association. In fact, he adds, the effort may not even be funded after this year.

Last year it briefly looked as though Seattle brokerage Redfin had broken down the information barrier. It released Scouting Report, an online tool that provided performance metrics on more than 1 million agents, based on data from the multiple listing services, or MLSs—databases of real estate listings and transactions available only to real estate pros. Scouting Report showed consumers, for the first time, information that brokerages have long kept close to the vest: how many homes an agent sold in the past three years, how long it took them to complete a deal and how successful they were in negotiating prices. Some consumers immediately leaped to use the tool. When Mark Roberts was selling his Washington, D.C., home, he found a slew of mistakes in the contract. Through Scouting Report, he learned that the buyer's agent had no experience in D.C., information that headed off misunderstandings. "It helped get the deal done," he says.

But as many infuriated agents pointed out, Scouting Report's source data—the listing services—were unreliable. Many transactions didn't get registered in the databases, so agents didn't get credit for them on Scouting Report. Similarly, an agent who was part of a team may not have gotten credit. Within a week, Redfin took down the tool. "It went down in the history books as our great defeat," says Glenn Kelman, Redfin's CEO.

This spring NeighborCity, a referral and brokerage website located in San Francisco, launched a similar tool that ranks about 850,000 real estate agents on a scale of 0 to 100 based on more than a dozen attributes, such as number of listings sold and how close the sale price was to the asking price. It gets this information from a mix of public records and data from brokerages, says CEO Jonathan Cardella. But like Redfin, the site has caused a ruckus. In April, MLS companies filed lawsuits against NeighborCity, alleging that it used data and listing information without the MLSs' authorization. (The litigation was partially funded by the National Association of Realtors, which says the suits are "of significance to the industry.") Cardella says the site tried to get the data from the services but had to turn to the brokerages after the MLSs denied them access. "It's not by coincidence that there's a concentrated effort among MLSs for agent ratings and rankings not to become public information," Cardella says. NorthstarMLS and Metropolitan Regional Information Systems, the MLSs bringing the suits, declined to comment.

The nearly 900 MLSs operate with separate standards, which means problems can start with the listings themselves. While some agents measure a house room by room, others rely on property tax records, which may not be up-to-date. So it's not unusual for, say, the square footage to be smaller than what an agent's listing sheet says. What's more, because the listings primarily serve as advertisements for prospective buyers, it's not likely that anything negative will pop up. "You're never going to see a sheet that says 'a triple homicide happened here,'" says Jack McCabe, a real estate consultant in Deerfield Beach, Fla.

The lack of uniform reporting, industry insiders explain, also lets agents tinker with certain numbers. Frank LLosa, a broker in D.C., says it's not uncommon for an agent to take a listing off the market for a day, only to relist it under a different MLS number. The switch can make it look like a new listing, because many sites use that number to calculate how many days a home's been on the market. Another popular measure of a selling broker's skill, the sales-to-list-price ratio, can also be misleading. If an agent lists a home at $500,000, drops the asking price to $450,000, and sells it for $445,000, he could report that it sold at 99 percent of list price—not at 89 percent of the original price. Some brokers con-

firm they do just that, saying it represents the market more accurately. But critics say the practice just inflates an agent's performance. Says Plymouth, Mich., broker Michael McClure: "Without a uniform way of reporting sales, everything is questionable."

A FEW GROUPS ARE after the real estate consumer holy grail: ratings that don't rely on listing service data. On Social Search, a feature of real estate portal Trulia, consumers can find agent recommendations via Facebook. Still, only about half of reviews come from homebuyers and sellers, says Trulia. (Others are from fellow brokers or family and friends.) Take Los Angeles agent Jane Peters, who has the most recommendations of agents in her area. Not one of her 17 reviews comes from a former client. Peters says she asks clients to only recommend her on her own website, rather than pestering them for multiple reviews.

Other would-be activists are operating on a smaller scale. Michael and Krista Becker rarely make a decision without reading online reviews, whether searching for gluten-free restaurants or puppy schools for their rambunctious Cavalier King Charles spaniel. But when the couple tried to find a real estate agent to sell their condo on the outskirts of Philadelphia, they went with a friend's suggestion—and ended up regretting it, ultimately firing the agent. Instead of whining about their experience at cocktail parties, Michael, a Web developer, built an online directory of Realtors called MountainOfAgents.com and launched it last summer. People can search for agents by zip code and see how consumers rate pros on attributes like "market knowledge" or "helpfulness."

The site has its flaws, however. Agents can "reserve" a zip code for $35 for three months—Becker's way of generating revenue. Agents who buy in stay on the first page of search results, regardless of how good their ratings are. There's also no space for comment. And because Becker, being a civilian, doesn't have access to multiple listing service data to prove that a client worked with an agent, there's no way to tell whether an agent is getting five-star ratings from Grandma and his bowling team. (Becker says the site "is not an end-all solution.") In a bid to get around such problems, the firm teamed up with a service called Verified Agent, run by McClure, the Michigan agent. To earn verified status, an agent must have completed at least 24 transactions in the past three years and have 10 client recommendations. At the moment, though, the service won't confirm how many agents are verified; it recently lowered its price, perhaps in an attempt to wangle more participants.

For now, most of these efforts remain little more than embryonic. Still, the Houston Association of Realtors, at least, is galloping ahead with its online ratings program—with or without agent support. The association requires those who opt in to the program to survey their clients within 10 days of a transaction. If they don't, they get a reminder giving them an additional five days—after that, the agent is suspended from the program until the surveys come back. Wayne Stroman, the group's chairman, says he's used a variety of software and Web tools to boost the business of his own firm, Stroman Realty. The way he sees it, agents better get on board. "If Realtors don't put together their own system, someone else will, because consumers want ratings," he says. "They're not going away."

Photograph by Michael Thad Carter for SmartMoney

10 THINGS

The Olympics Won't Tell You

By Sara Germano

"Bring your sleeping bag."

1 Headed to London this summer? You're not alone: During the 17 days of the 2012 Summer Olympics, 900,000 visitors are expected to descend on the city—in addition to the 1.5 million who typically pack into London during that span each year. And many will be vying for a spot in one of the city's 130,000-plus guest facilities (ranging from five-star hotel rooms to $16 campsites), a large chunk of which were set aside for staff and media. The situation may not be as dire as it sounds, though: Insiders at Visit London, an official information source for occupancy rates in the Olympic city, say that an additional 75,000 rooms are available in nearby suburbs. To help travelers navigate around heavily trafficked roads and transit stations, meanwhile, government agency Transport for London has developed an interactive map, available online at getaheadofthegames.com.

"Enjoy the boonies!"

2 The swath of venues for the London Games stretches to the likes of Hadleigh Farm, where the mountain-biking competitions can be found—after a 95-minute train ride from the city and a 40-minute walk from the nearest station. Indeed, it's not unusual for Olympic sites to be located outside the host city or in neighborhoods that tourists rarely see. But since revitalizing parts of the metropolitan area and

Illustrations by Istvan Banyai for SmartMoney

even outlying towns is one of the intended benefits of hosting an Olympics, it's no wonder the sites aren't always chosen with visitor convenience in mind. After all, the promise of revitalization helps get local taxpayers and businesses on board for a project they'll ultimately be paying for. And while not all host cities historically have seen a post-Games uptick in tourism, some have: The 1992 Summer Olympics in Barcelona, for one, successfully put the coastal Spanish city on the map, say industry observers. And with more than 60 percent of the organizing committee's investment spent outside of Barcelona itself, even peripheral areas got an economic boost.

"The ticket line formed two years ago."

3 Because of high demand, ticket purchasing has become more of a headache in recent years. Since the 2006 Winter Games in Turin, Italy, Americans looking for tickets have had to purchase them through an authorized third-party retailer that estimates domestic demand and negotiates with the host organizing committee, which sets the number of tickets for sale. For the 2010 Winter Games, U.S. ticket demand surged 220 percent beyond what the Vancouver committee had allotted to the U.S., says Jet Set Sports/CoSport, the authorized U.S. ticket agent. Such fervor led the company to hold lotteries for the opportunity to purchase 2012 tickets, registration for which opened way back in 2010. Just how much should you expect to pay? The best seats for the 100-meter dash can set you back more than a grand, and admission to the opening ceremonies tops $3,000. If that's not in your price range, you can still catch every major event: In a change from previous years, the 2012 Games will be streamed live at nbcolympics.com.

"Come visit—just not right now."

4 For those who've been longing to see London, 2012 might be the best year yet to visit—just not during the Games. A night at the Best Western in central London during the height of the Olympics runs $366, though the same room is only $196 a month later, after the hoopla ends. The reason: Past host cities have seen tourism crash before and after the Olympics. Beijing, for instance, saw a 20 percent drop in year-over-year visitors in the six months surrounding the 2008 games. To prevent a reprise of that scenario, British tourism directors appealed to Olympic naysayers with deals for the Queen's Diamond Jubilee in June. And some major tourist venues in London, including the London Eye and the Tower of London, have even signed a charter agreeing not to increase their rates during or after the games. A Visit London spokesperson says the charter helps make prices fair for visitors, while keeping businesses from overinflating prices.

"Funding is provided by viewers like you."

5 Just this spring, a long-running dispute was settled between the U.S. and International Olympic Committees regarding how revenue from media rights and sponsorships will be shared between them. (In 2011, NBC paid $4.4 billion for the U.S. rights through the 2020 games.) Terms of the new deal, which runs from that date through 2040, were not disclosed, but the renewed peace will allow the U.S. Olympic Committee to bid to host future Olympics. The U.S. Olympic team relies on such funding (along with sponsorships and private donors); most other nations' Olympic movements are government-funded. That's a problem for Britain, where the original budget for the London Olympics has nearly tripled, with local taxpayers expected to shoulder $14 billion of the cost. Not surprisingly, in a recent ComRes poll, 51 percent of Britons said they think the games won't be worth the financial burden.

"Olympian power! Itty-bitty paycheck."

6 Each time swimmer Michael Phelps stepped to the top of the winner's podium at the Beijing Olympics, he earned not only gold medals but also endorsements worth millions of dollars. And some athletes even have sponsorship deals from companies like Citibank that aren't tied to endorsing an athletic product. The chance to shine comes once every four years, but with the

exception of marquee performers like Phelps, few Olympians earn very much. According to a survey conducted by the fund-raising nonprofit USA Track & Field Foundation, of the track athletes ranked in the top 10 in their event in the U.S., 80 percent earn less than $50,000 each year—if they even have contracts. Jack Wickens, senior vice chairman of the foundation, says many endorsement contracts come with "reductions," which means as much as 25 percent of an athlete's salary could be cut if she underperforms her ranking in a competition. "It's not unusual for Olympic finalists in key events to not get re-signed by their company," he says.

"No medal? The whole team will suffer."

7 Adding to the pressure to perform is a recent decision by the U.S. Olympic Committee to reconsider how it distributes funds to U.S. teams. Starting this year, the committee will work with each sport's national governing body to determine medal-earning potential—and will allocate its financial support according to how much a sport can add to the medal haul. In other words, multi-event sports like track and field, which currently receives the most annual funding from the committee, will probably continue to earn support, while smaller sports are already facing cuts. Team handball, for example, saw a 20 percent funding reduction and nearly faced bankruptcy last year but is working with the committee to relaunch the sport, says general manager David Gascon. A committee spokesperson says it has been in touch with the national governing bodies for each sport for the past two years about the switch: "It's a plan that hasn't caught anybody by surprise."

"We make our athletes pee on command."

8 After several high-profile scandals in the past 15 years, executives in global athletics began a movement toward more strict and regulated antidoping campaigns. The U.S. Anti-Doping Agency, an independent nonprofit organization entrusted with the difficult task of keeping athletes clean for Olympic competition, opened in 2000 to regulate drug testing. Each Olympic sport's national governing body gives the antidoping agency criteria to use in determining which athletes to include in the registered testing pool, from which they're eligible to be tested anytime anywhere, with or without notice. That means providing blood and urine samples in full view of assigned antidoping officials. Travis Tygart, the agency's CEO, says the strict codes are in place to combat not just doping but a deeper cultural problem. "We live in a society that commands us to win at all costs, and doping is just a symptom of that," he says. Many athletes who are in the drug-testing pool, however, say unannounced tests are humiliating.

"The road to the White House starts here."

9 Bidding for an Olympics is a gargantuan task involving years of planning, lobbying and fund-raising. "Think of it as a presidential campaign," says Mark Mitten, the chief brand officer of the failed Chicago 2016 Olympic bid. "You want your candidate city elected, and there aren't enough hours in the day to do everything." It's perhaps no wonder, then, that an Olympic architect of yesteryear is now a hot ticket on the political circuit. Republican presidential candidate Mitt Romney gained national recognition for his role in running the Salt Lake City Winter Olympics in 2002, an experience he touted in his bid for governor of Massachusetts. If potential political aspirants can promote a host city—by wooing International Olympic Committee delegates, overseas businesses and city constituents—building their own brand should be a snap.

"Europe and the U.S.? Ho hum."

10 The U.S. has hosted eight Olympic Games—more than any other nation. And until recently, the games rarely strayed from Europe and North America. But when they came to Beijing in 2008, the Communist country "opened up its doors in ways it previously hadn't," says Mitten. Rio de Janeiro will be the first South American host of the Olympics in 2016, and the Middle Eastern city of Istanbul is under consideration for the 2020 Games, after having already hosted the World Indoor Championships in track and field this winter. Experts familiar with the bid process believe that the International Olympic Committee, whose delegates decide the host city in a closed vote seven years before each Olympiad, is enticed by opportunities to bring global sports to emerging markets like Brazil.

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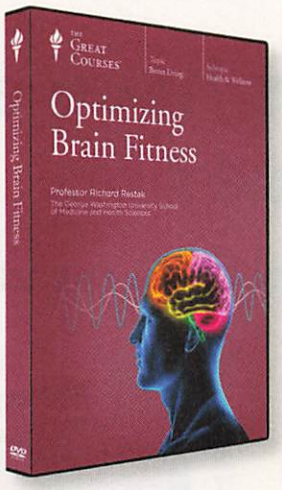

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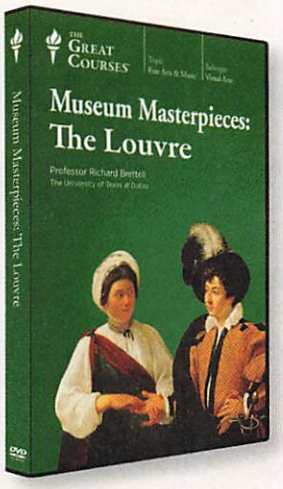

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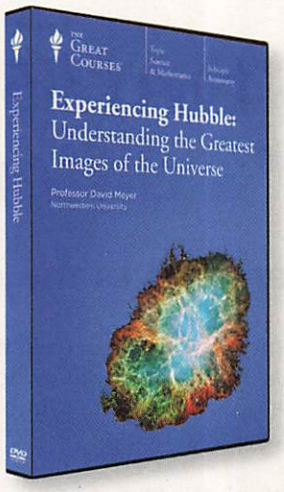

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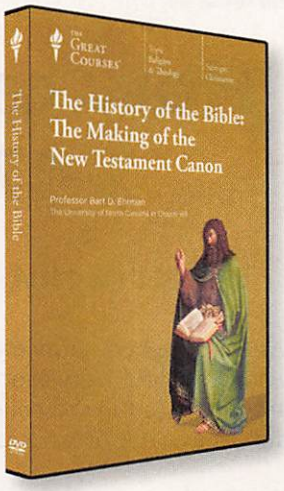

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Illustration by Marcos Chin for SmartMoney

Midlife's A Beach

Since getting dunked by the sodden economy, the water-sports industry has a new target: beach boomers. By Jen Wieczner

AFTER DECADES OF windsurfing, kite boarding and surfing, Bill Babcock fell in love with stand-up paddling—a sport a bit like canoeing while standing on a surfboard—because it was everything the other sports weren't. He can do it on any type of water, it doesn't hurt his 65-year-old joints, and it requires just a board and a paddle. "It seems almost too simple," says the retired advertising executive. Of course, simple doesn't always mean cheap. First came the fancy boards (the $3,500 Bullet has a built-in steering system); then the specialized accessories (like his $200 speed tracker). Ultimately, Babcock estimates, the tab for his hobby hit a high watermark of more than $20,000.

Remember when an afternoon in the water required nothing more than a swimsuit and an inner tube? These days, the beach has become just another venue for gearheads to show off their latest toys. And while you might expect to see the usual crowd of tanned Mountain Dew chuggers out there polishing their boards, this time around, their hair is gray, not sun-bleached. Indeed, the current fleet of beach paraphernalia has been designed to go easy on creaking bones and let even the most safety-conscious boomer dip a toe into the world of extreme water sports. Makers of personal watercraft (think Jet Skis) are now offering machines with cruise control and suspension systems for a less spine-jarring ride. Not sure today's love handles can squeeze into yesterday's wet suit? The latest suits have stretchier fabrics and welded seams that fit even those without surf-god bodies. And stand-up paddle companies build boards large enough for the balance-impaired, says Doug Palladini, president of the Surf Industry Manufacturers Association: "It feels like standing in your living room with a paddle in your hands."

Of course, there's a business rationale behind this go-easy approach. The silver set may not water-ski or surf like they used to, but experts say they do have one advantage over younger beach bunnies: disposable income. Today's gear is pricier; the average stand-up paddleboard, for instance, costs $1,000—nearly twice as much as a standard surfboard. (That didn't stop sales of the jumbo boards from spiking 115 percent last year.) And tricking out a personal watercraft can nearly double the price. "The only people who have the

money to get these things are those in the older demographic," says Tim Rosenhan, president of the Trade Association of Paddlesports. For an industry that suffered a gnarly wipeout in the recession—sales at surf-focused stores fell nearly 16 percent from 2008 to 2010—the deep pockets in boomers' board shorts have never looked better.

But for would-be wave riders, there's more to consider than surging equipment prices. There are less obvious costs, like lessons (about $100 an hour) and personal-watercraft insurance (up to $700 a year), and some new features may seem cooler in the showroom than they do on the water. (Do you really want to stow an iPhone in that kayak cell holder?) Experts also caution that, even with equipment far safer than it used to be, people who underestimate the dangers of hitting the surf could find themselves out to sea without a paddle.

KAYAKS

JUAN OTERO LOVED paddling his kayaks out to fish off the Rhode Island coast, but paddling back was a different story: He would sometimes find himself still heading home long after dark had fallen. Then he splurged on a "mean, no-worries-at-all fishing machine": a $2,000 kayak with a built-in motor. Now, not only does the 59-year-old make it home for dinner, but he expects to be able to chug out to his angling spot for decades to come. "Just put that little rascal on and he takes you back home," says the North Kingstown, R.I., shellfish company manager.

After years of focusing on paddlers looking to shoot Class V rapids or brave ocean waves, the kayak industry is steering toward those who prefer the river mild. Fishing kayaks have been a bright spot for the struggling industry: Outdoor stores sold more than $27 million worth last year, up roughly 50 percent compared with 2010, according to researchers Leisure Trends Group. These kayaks tend to focus on comfort—think cushioned seats and back support—and makers say they're easier to handle than the sportier models. The sit-on-top versions

PHOTOGRAPHS (PREVIOUS PAGE) BY ERIK ISAKSON/BLEND IMAGES/CORBIS; RICHARD HAMILTON SMITH/CORBIS (JET SKI)

are especially popular with the older anglers, says a spokesperson for manufacturer Ocean Kayak, in part because they're less likely to tip over. Of course, a kitted-out fishing kayak can cost more than twice as much as a basic model. And it's not just the craft that could capsize paddlers' budgets—after all, who wants to hit the water without a sonar fish finder ($200), waterproof GPS ($450) and carbon-fiber paddle ($475)?

PERSONAL WATERCRAFT

JUST BECAUSE YOU'RE not 25 anymore doesn't mean you've outgrown the need for speed—though your body might beg to differ. The personal-watercraft industry has been hustling to scratch boomers' adrenaline itch with models that have power steering and other extras—big news for a business that only recently started offering brakes. Maker Kawasaki says it added lumbar support to its Jet Ski seats at customers' behest, noting that the most expensive models (about $15,000) have a feature that raises the bow out of choppy water for a smoother ride. These tricked-out versions are the "yachts of personal watercraft," says David Petina, an industry analyst with the Freedonia Group, a market research firm.

But experts point out that while the machines have gotten more comfortable, that doesn't necessarily mean they've also gotten safer. After all, the craft have no outer shell to protect riders, and they can hit speeds of nearly 70 miles per hour. In 2011 nearly 800 people were hurt riding one, according to the Coast Guard—more than six times the number injured on kayaks or canoes. The makers say it's up to riders to operate their machines responsibly but admit that risk is inherent in the sport.

STAND-UP PADDLEBOARDS

WHEN STAND-UP paddling began gaining popularity in the mid-aughts, much of the industry laughed it off (some still call paddleboarders janitors, in reference to the sweeping motion of the paddle). But then came the recession. Suddenly, retailers were more than happy to accommodate shoppers asking for the bigger, more expensive boards. What's more, the sport can be done on lakes and rivers, opening up new markets. "We've got to ride this stand-up paddle thing—it's what's going to keep the doors open," says Shea Weber, of the Surf Industry Manufacturers Association. Last year, major retailers sold more than twice as many paddleboards as they did in 2010, buoying the industry to about $19 million.

But as anyone familiar with the skiers versus snowboarders rivalry can attest, the relationship between two sports that occupy the same turf can be...prickly. As stand-up has become more popular, the tension between surfers and paddlers has risen, and a few places have started regulating where stand-up paddling is permitted. (Some California districts are enforcing these rules with fines of nearly $500.) The Coast Guard has also classified the boards as "vessels," meaning that, in many cases, riders are technically required to have a life jacket and flashlight.

Still, for water-sports fans like retiree Babcock, tolerating surfers' gripes and following a few rules is a small price to pay for a day on the ocean without the fear of coming home with banged-up shoulders and knees. "It's kind of a geezer sport," he says fondly.

Rental Revamp

$

NOT BAD

Rental Aggregators

HUNTING FOR A summer rental used to mean hours spent combing through listings. Now, vacation-rental search engines promise to streamline that process by scanning several of the Web's top rental sites. Otalo, for instance, allows vacationers to check listings in 164 countries. Competitor Dwellable scans fewer sites, but offers an iPad app that lets vacationers browse photos of potential rentals.

$$

GETTING FANCY NOW

Vetted Rentals

WHILE AGGREGATORS can't promise that the gorgeous house in the photo isn't actually a termite-ridden shack, some rental sites will vouch for their listings. Jetsetter, for one, says its staffers have visited each of its 300 high-end properties (think a 10-room lodge in Telluride, Colo., starting at $4,900 a night), all of which come with concierge services like housecleaning or a personal chef. The site also offers a travel-planning service that can work out the details of the trip.

$$$

LIFE-CHANGING

Your Own Town

BUT WHY SETTLE for a house when you could take over a whole village? Xnet, an event-marketing company in Liechtenstein, can arrange a town rental in Austria, Germany or Switzerland. Vacationers can change the names of the streets or even introduce their own currency. Rentals are typically recommended for groups of at least 150 and can take six months to plan. The deal includes meals, planning and lodging—with rates starting around $65,000 a night. *—Linda Lacina*

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Coleman RoadTrip Grill LXE $190

Why settle for franks over the campfire when you could have steaks on the grill? This 44-pound gas model folds up to about suitcase size, with wheels and a built-in handle for easy maneuvering. Its double burners allow alfresco chefs to cook multiple dishes at different temperatures.

▼ NOT WORTH IT

Char-Broil Grill2Go Ice RealTree Portable $200

We hope you've been working out: This single-burner gas grill with built-in coolers weighs 70 pounds and is nearly a foot longer and taller than the Coleman when collapsed. Char-Broil says it's made for outdoor people with large, rugged vehicles. *—L.L.*

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"At one Brooklyn eatery, the $11 foie gras donuts sell out every night."

ANNE KADET is a senior writer at SMARTMONEY and the Metro Money columnist for *The Wall Street Journal.*

ON A RECENT New York City visit, Kristie Garduno took her kids to Doughnut Plant, a tiny Lower East Side shop. A friend back home in Tuscaloosa, Ala., had recommended the place, she explained. After taking photos of the fry cakes offered like jewels in the display case and ordering for the whole gang, she took a bite of her modestly portioned tres leches donut. "Awesome!" she exclaimed. It better have been. The tab for four donuts: $12.50.

Used to be, you could count on donuts for two features: They were cheap, and they would kill you. But now, you can depend only on the latter. Most big cities now boast at least one shop offering exotically flavored donuts (chili mango, apricot cardamom) at prices heretofore reserved for something more substantial—like a Cadillac. Those Doughnut Plant desserts, for example, cost three times what you'd pay at the train station coffee shop.

The James Beard Foundation named artisan donuts one of its 2012 trends to watch, and there are plenty of places to watch it. Glazed and Infused in Chicago says one of its best sellers is the $3.25 Maple Bacon Long John, topped with an entire strip of bacon. In San Francisco, folks line up for pricey vegan donuts at Pepples. Pub crawlers favor Gourdough's Big Fat Donuts in Austin, Texas, where treats max out at $6.25. And at Brooklyn's Do or Dine, the $11 foie gras donuts sell out every night.

The craze comes amid a larger donut renaissance. Supermarket sales rose steadily after the recession, and revenue at Krispy Kreme and Dunkin' Brands grew 17 percent over the past two years. When times are tough, we crave comfort food, says Anna Mowry, an editor at the Beard Foundation. And nothing puts you in a coma faster than a deep-fried wheel of flour and sugar.

But there's more at stake: What folks really want, trend watchers say, is a small indulgence that can compensate for the bypassed vacation or new car. Thus we have the rage for microbrews, exotic soaps, pedicures and, yes, gourmet donuts. Ryan Palmer, a Gourdough's founder, says that when he raised his prices by a dollar last year, nobody blinked. Five bucks is a lot for a donut, but it's not too much for a special treat.

We're also looking for treats that simultaneously fulfill our cravings and assuage our guilt. The new-new donuts fit the bill, says Kara Nielsen, a food trendologist with CCD Innovation. They're often made from organic, locally sourced, seasonal ingredients. They are gluten-free, trans fat–free and, of course, pesticide-free. They walk blind ladies across the street and end apartheid. When you eat one of these donuts, you're not pigging out, you're doing the world a favor.

And there's a reason for the high prices. While most mass-market donuts are made from prefab mix, the artisan donuts are made by hand. Even at $3 a pop, the profit margins are lower than those on the $6-a-dozen donuts at the big chains, says Megan Brown, the business consultant who cofounded Glazed and Infused.

But that leaves a metaphysical question. If a donut costs more than a dollar, is it still a donut? Licking their fingers at Doughnut Plant, Garduno's gang seemed unsure what they'd just eaten. "It's a little refined," said her boyfriend, Sanford Rinda. "More like cake." Still, he finished every crumb.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

For more of Anne Kadet's Tough Customer columns, visit SmartMoney.com.

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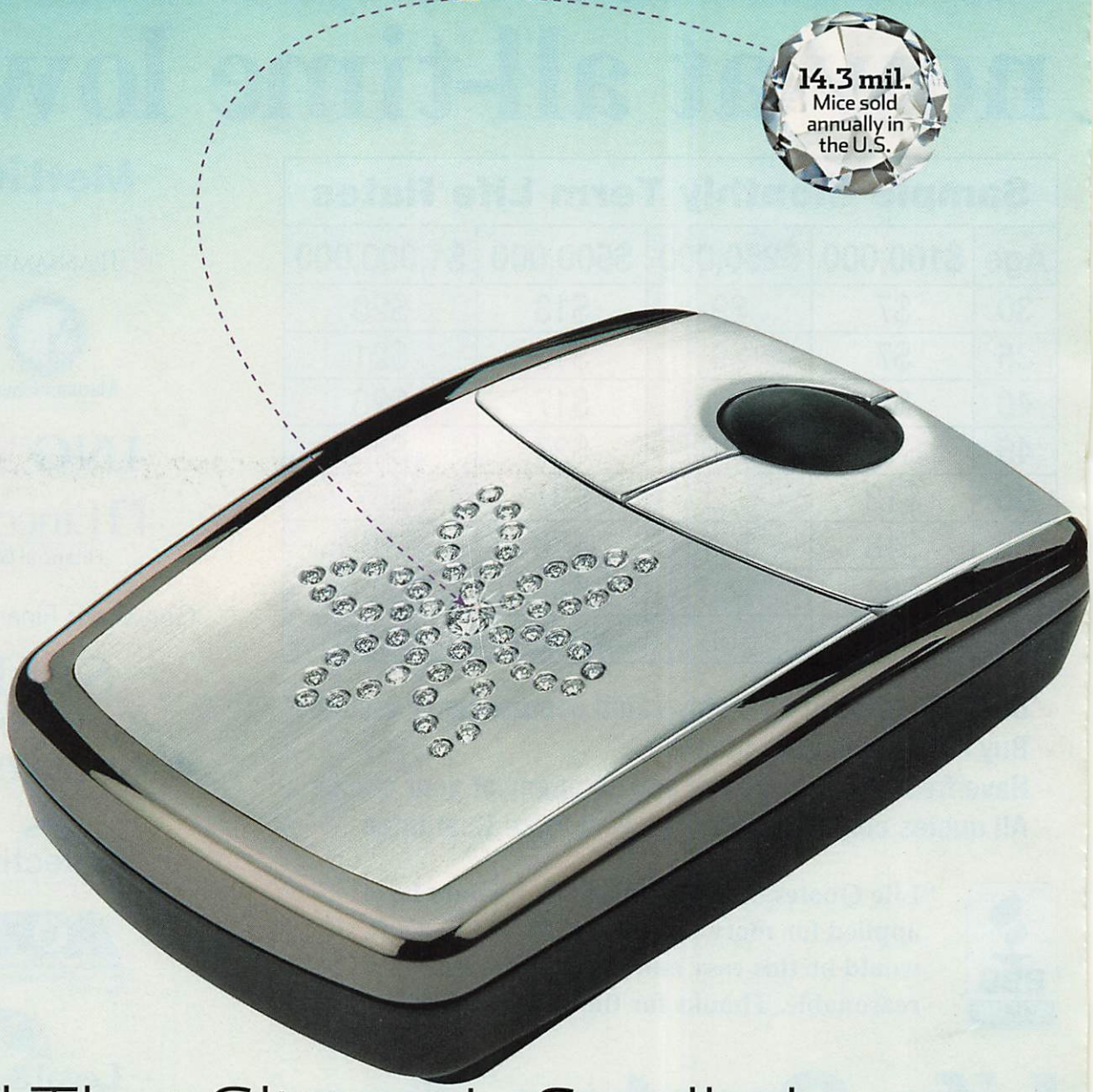

All That Glitters Is Scrolled

The Goods: Ever sit down at your PC and think: You know what this thing needs? Diamonds! If so, British retailer Fabstuff has your number. For $25,700, the company offers "the world's most expensive computer mouse," a wireless gadget studded with 59 diamonds, which can be arranged in a variety of designs—including the buyer's initials. The mouse, which is made-to-order by a Swiss firm, also has panels of 18-karat white or yellow gold, making it the "perfect gift for a 50th wedding anniversary," says Fabstuff.

The Reality: The mouse might class up your desk, but it won't do much for your computing power. Fabstuff notes that the device is wireless, but that's hardly cutting edge; 76 percent of mice sold in the U.S. last year were wireless, according to researcher NPD Group. There are many more advanced models available, says Chris Harrison, a Ph.D. candidate at Carnegie Mellon University who specializes in mobile-interaction technology, adding that he wouldn't pay more than $100 for a mouse. (Fabstuff says it doesn't advertise the device as technologically advanced, and the price reflects the cost of materials.) But when it comes to the gadget's high-end casing, all that glitters isn't gold—or diamond, for that matter: The mouse's trim is made of plastic. *—Sara Germano*

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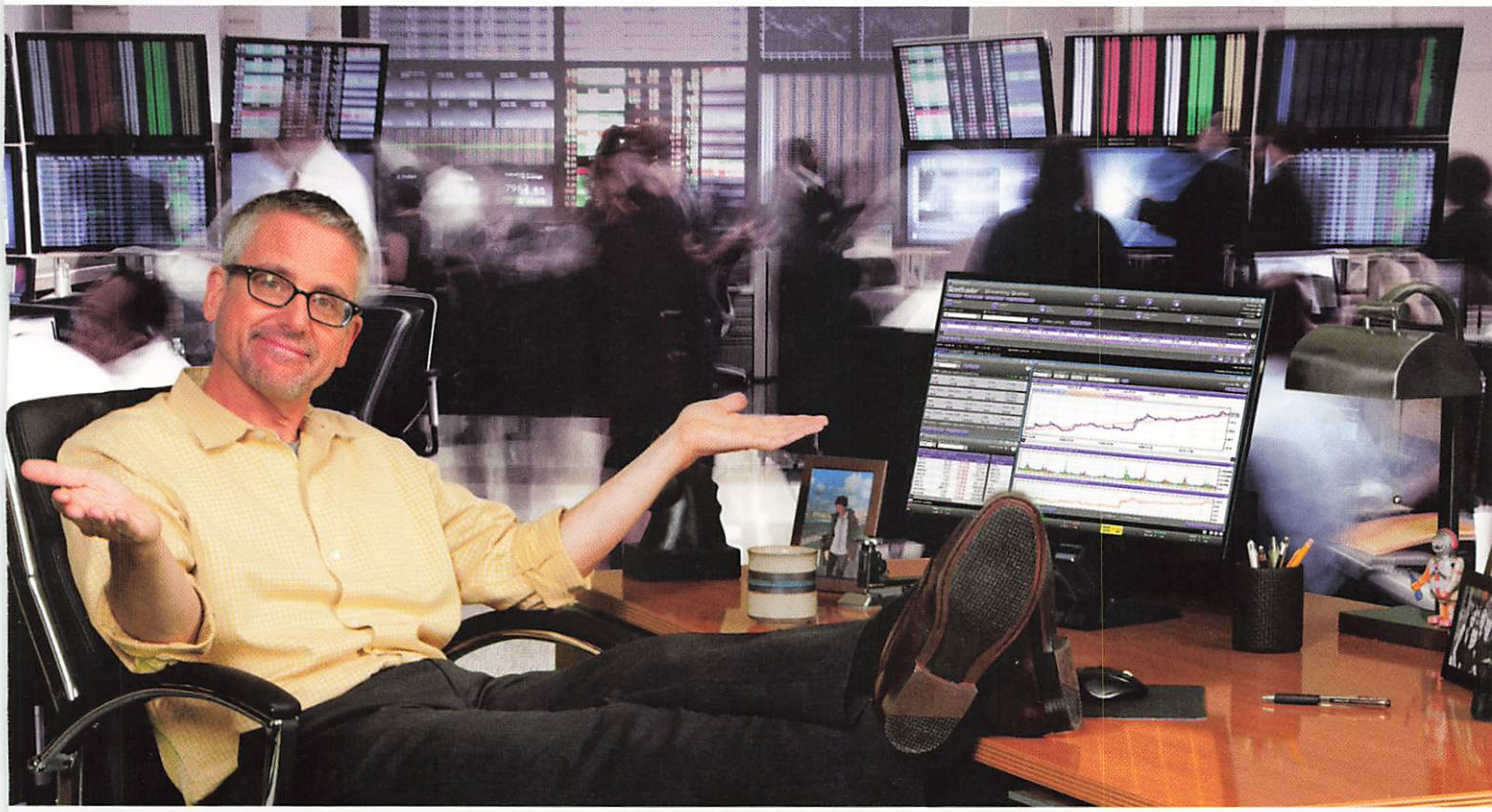

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"HEY.

SORRY, DID I WAKE YOU UP?

OH I FORGOT YOU'RE SIX HOURS AHEAD. NOT BEHIND. MY BAD.
YEAH, I'M STILL HERE. WAITING ON MY DIM SUM AND THEN I'LL BAIL.
YOU KNOW. JUST ANOTHER FRIDAY NIGHT IN NYC.

ALMOST TEN O'CLOCK. GUESS I DON'T CARE.

I'M LIKE, AT LEAST WE ARE WORKING ON SOMETHING GOOD FOR A CHANGE.
OH, ME AND MY PARTNER, SULLY. NO. SHE'S A GIRL. SHORT FOR SULLIVAN.

NO. SHE'S COOL. FUNNY, YOU KNOW?

SHE'S DIFFERENT, I GUESS. I DON'T KNOW. WE JUST WORK TOGETHER.
WE DID GO TO A MOVIE BUT THAT'S ALL.
AND ONLY BECAUSE WE HAD TO WORK ON SATURDAY AND HAD LIKE FOUR HOURS TO KILL

BEFORE THE BOSS CAME IN FROM GOLFING AT HIS MANSION
OR WHATEVER HE DOES.
NO, MAN. IT'S NOT LIKE THAT WITH MEGAN.
I NEVER USE HER FIRST NAME. WEIRD.

WHATEVER. SHE'S GOT A BOYFRIEND. HE'S NOT COOL BUT...WHATEVER.
WE'RE JUST FRIENDS.

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